



James Bay
Resources Limited

JAMES BAY RESOURCES LIMITED

2015 ANNUAL REPORT

May 12, 2016

Dear Fellow Shareholders:

On behalf of the Board of Directors, I am pleased to report to you on our progress in 2015 and 2016 to date and provide our outlook for the balance of 2016.

COMPANY HIGHLIGHTS

In May 2014, Crestar Integrated Natural Resources Limited ("Crestar") a non-controlled subsidiary of James Bay was selected as the winning bidder to acquire Shell JV's 45% participating interest in Oil Mining Lease No. 25 ("OML 25"). As has been previously disclosed in our press releases, James Bay is involved in a number of disputes in respect of this acquisition, all being handled through Crestar. The disputes began when the Nigerian National Petroleum Corporation ("NNPC") wrongfully attempted to exercise an expired pre-emption right in respect of OML 25. In January, 2015, after NNPC wrongfully attempted to block the sale of the interest in OML 25 and to acquire the interest for itself, Crestar commenced injunction proceedings in the Nigerian Federal High Court to bar The Shell Petroleum Development Company of Nigeria Limited, Total E&P Nigeria Limited, and Nigerian AGIP Oil Company Limited (collectively the "Shell JV") from effecting a transfer of OML 25 to NNPC or anyone else, which injunctions were granted on a preliminary basis. The Shell JV has sought to discharge the injunctions, but the Nigerian Federal High Court has to date dismissed these applications. The majority of the purchase price for the purchase of OML 25 that had been held in escrow under the terms for the acquisition of the 45% interest was released back to our partner in July, 2016, as disclosed by James Bay in its press release at that time.

James Bay and Crestar continue to vigorously pursue the acquisition of the interest in OML 25 on all fronts (both legal and political) in order to secure value to the shareholders for the interest in OML 25, and to reflect the efforts of management in securing a winning bid for a material oil and gas asset.

Financing

In April 2015, the Company announced a non-brokered private placement (the "Offering") of an unsecured convertible debenture in the aggregate principal amount of \$3 million. The first tranche of the Offering in the amount of \$1.6M closed on April 30, 2015 and the remaining \$1.4 million was closed over a series of tranches to June 16, 2015. Each participant in the Offering also acquired, pursuant to separate agreement, an entitlement in up to 30% of any award resulting from litigation or settlement of the claims discussed earlier in my letter. Management participated and purchased over 50% of the convertible debenture. All of this has been disclosed in greater detail in our press releases dated April 16, 2015, April 30, 2015, May 29, 2015 and June 16, 2015.

The Company's Ogedeh Project is currently being reviewed by the Department of Petroleum Resources (DPR) (as is the case with several other marginal fields, awarded in 2004) to determine whether the Company and the Company's partner, Bicta Management Systems Limited (Bicta), have done sufficient work to secure an extension to the life of its license. Also, given the current state of the oil market and given the fact that the Ogedeh Project does not contain any proven reserves, the project has been put

on hold. No further work will be performed until the project is determined financeable. The Company has written down its investment in the Ogedeh Project to reflect the current price of oil and the continued review by the Department of Petroleum Resources (DPR) of all marginal fields awarded in 2004 but currently not producing.

Given all of our efforts to secure an interest in a significant oil project in Nigeria, we are confident that James Bay will be successful in acquiring an interest in OML 25, providing a base for future growth.

On Behalf of the Board, we thank you for your continuing support.

Signed,

"Stephen Shefsky"

President and CEO



MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2015 AND 2014

INTRODUCTION

The Management's Discussion and Analysis ("MD&A") of James Bay Resources Limited (the "Company" or "James Bay") should be read in conjunction with the Company's consolidated audited financial statements for the year ended December 31, 2015 and 2014. Those financial statements are prepared in accordance with International Financial Reporting Standings ("IFRS") and all amounts shown in this MD&A and in the financial statements are expressed in Canadian dollars, unless otherwise noted. This MD&A was reviewed and approved by the Company's Audit Committee and Board of Directors on April 13, 2016.

FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking statements and information relating to the Company that are based on the beliefs of its management as well as assumptions made by and information currently available to the Company. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such forward-looking statements relate to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the continued exploration of the Company's exploration property. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievement of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made.

COMPANY OVERVIEW

James Bay is a junior resource company originally focused on the acquisition and exploration of base and precious metal mineral properties, with activities centered in Canada. The Company has exclusive rights in the mining claims known as the James Bay Lowlands property (the "Property"), located approximately 60 km southeast of the First Nations community of Webequie, and approximately 600 km northwest of Timmins, Ontario, Canada. The Property consists of 75 unpatented claims covering a total of approximately 974 claim units or approximately 15,648 ha of mineral exploration rights.

In 2011, the Company entered into a preliminary agreement to conduct due diligence to identify potential oil and gas acquisition targets in Nigeria.

In 2012, the Company signed an agreement to acquire a 47% interest in the Ogedeh Marginal Field Award on the Farmed-Out Area within the Oil Mining Licence 90 ("OML 90 Project" or the "Ogedeh Project"). As a result of the Company's change in focus to pursuing oil and gas assets in Nigeria, on October 11, 2012, the Company filed a National Instrument 51-101 report concerning the Ogedeh Project to pursue conditional approval of its change of business under the policies of the TSX Venture Exchange ("TSX-V").

The OML 90 Project has been placed on hold given the economics in current market conditions. The Company's goal is to re-enter the well with the goal of commercial production subject to financing. After re-entry of the discovery well and an expected Long Term Test (LTT), a new well will be drilled as an appraisal well to define the in-place volumes.

The Department of Petroleum Resources (DPR) is currently reviewing all marginal field licenses to determine if the current owners have done enough work to keep their license. The nature and extent of work required is not clearly defined by the DPR.

The Company, through its wholly owned subsidiary James Bay Energy Nigeria Limited ("JBENL") has a 45% ownership interest in Crestar Integrated Natural Resources Limited ("CINRL" or "Crestar") with the remaining 55% portion held by an indigenous Nigerian corporation Crestar Hydrocarbon Exploration and Production Company Limited ("CHEPCL").

In June 2014, CINRL was selected as the winning bidder for a 45% participating interest in active Oil Mining Lease No. 25 (“OML 25”) in the Niger Delta region, offered by joint venture partners The Shell Petroleum Development Company of Nigeria Limited, Total E&P Nigeria Limited, and Nigerian AGIP Oil Limited Company (collectively the “Shell JV”).

The Nigerian National Petroleum Corporation (“NNPC”) attempted to block the sale and acquire the interest for itself under a 30-day contractual right of first refusal that had expired months earlier, Crestar commenced injunction proceedings in January 2015 in the Nigerian Federal High Court to bar the Shell JV from effecting a transfer to NNPC or anyone else, which injunctions were granted on a preliminary basis. The Shell JV subsequently sought to discharge the injunctions, but the Federal High Court dismissed the Shell JV’s application on March 6, 2015.

On March 9, 2015, The Federal High Court of Nigeria ruled in favor of Crestar and granted an injunction in favour of Crestar which froze plans by the NNPC to acquire the 45% participating interest in OML 25 being divested by joint venture partners The Shell Petroleum Development Company of Nigeria Limited, Total E&P Nigeria Limited, and Nigerian AGIP Oil Company Limited. As of the date hereof this injunction continues to remain in place.

CORPORATE STRUCTURE

In February 2012, the Company incorporated a wholly owned Nigerian subsidiary, James Bay Energy Nigeria Limited (“JBENL”). Pursuant to an agreement signed with D&H Solution AS, 100% share ownership interest of D&H Energy Nigeria Limited (“DHENL”) and Ondobit Limited (“OL”) were transferred to JBENL on March 9, 2012.

In April 2012, 2255431 Ontario Inc. (a wholly owned subsidiary of the Company) assigned its 100% ownership interest of James Bay Coal LLC (“JBC LLC”) to James Bay. JBC LLC is a US entity and a wholly owned subsidiary of James Bay. JBC LLC was later converted from a Delaware corporation to a Delaware limited liability company called James Bay Energy Nigeria LLC (“JBEN LLC”). Subsequently, 2255431 Ontario Inc. was wound up in June 2013.

In September 2013, Crestar Integrated Natural Resources Limited (“CINRL” or “Crestar”) was incorporated. The Company has a 45% ownership interest in Crestar through its wholly owned subsidiary company JBENL. In November 2013, the Company entered into a financial and technical services Agreement with CINRL whereby the Company is appointed the financial and technical partner with respect to acquiring oil and gas projects in Nigeria.

Effective June 17, 2014, the financial and technical services agreement was amended to reflect a change of party from CINRL to CHEPCL. All terms in the November 6, 2013 agreement between JBENL and CINRL remain in effect with CHEPCL. JBENL’s 45% ownership interest in CINRL remains unchanged.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries.

James Bay Energy Nigeria LLC, USA	100%
James Bay Energy Nigeria Limited, Nigeria	100%
D&H Energy Nigeria Limited, Nigeria	100%
Ondobit Limited, Nigeria	100%
Crestar Integrated Natural Resources Limited, Nigeria	45%*

* During the year ended December 31, 2014, an agreement came into force with a prospective future investor of Crestar Integrated Natural Resources Limited (“CINRL”) to provide CINRL with a loan for the full acquisition cost of the asset. The Company ceased consolidation of CINRL accounts subsequent to this change.

COMPANY HIGHLIGHTS

Oil Mining Lease (“OML 90”)

In March, 2015, the Nigerian Department of Petroleum Resources (“DPR”) stated that they were reviewing all marginal field licenses to determine whether the current owners have done sufficient work to maintain their licenses. The nature and extent of work required are not clearly defined and there has been no further update from the DPR. During fiscal 2015, the Company decided to write off the petroleum property interest assets in OML-90 in the amount of \$4,486,965.

Financing

During the fiscal 2015, the Company issued unsecured convertible debentures in the aggregate principal amount of \$2,999,895. The convertible debentures bear interest of 15% per annum, payable semi-annually and mature three years following the date of issuance.

Stock Options

On May 4, 2015, the Company granted 5,285,000 stock options to directors, officers, consultants and employees of the Company. On September 15, 2015, the Company granted an additional 250,000 stock options to a consultant.

Crestar Integrated Natural Resources Limited (“CINRL”)

In July 2015, the Company received a repayment from its investment in CINRL in the amount of US\$3,500,000 (CAD\$4,459,000).

PETROLEUM PROPERTY INTERESTS

OML 90 PROJECT

In June 2012, the Company entered into a Joint Operating Agreement (“JOA”) with an oil and gas field owner in Nigeria (the “Vendor”). Under the terms of the agreement, the Company will acquire a 47% interest in the Ogedeh Marginal Field Award on the Farmed-Out Area within the Oil Mining License 90 (“OML 90 Project”) in Nigeria.

The Company paid US\$50,000 for transfer of due diligence data and administrative fees and US\$50,000 for an exclusivity period. As consideration for the transfer of the interest, the Company is required to pay an aggregate of US\$2,500,000 as follows:

- US\$100,000 due 90 days from the date of execution of JOA or within 24 hours of the execution of the JOA and Deed of Assignment (“DOA”), whichever is earlier (paid in 2012).
- US\$200,000 due upon approval from Department of Petroleum Resources (“DPR”) of the assignment of direct interest in OML 90 project to the Company (paid in 2013).
- US\$300,000 to be released upon the grant of government permit for drilling activity and arrival of a drill rig at the OML 90 project. A preliminary government permit was received in March 2014. As of December 31, 2015, a drill rig has not yet been installed at OML 90. Of the original US\$300,000, US\$100,000 (\$104,050) was paid as an advance. The remaining \$253,320 (US\$200,000) has not yet been paid or accrued. The amount advanced in 2013 was written-off along with the exploration and evaluation asset balance at December 31, 2015.
- US\$1,000,000 upon completion of a final independent report of P1 reserves of at least 7,000,000 proven recoverable barrels of oil, or if such reserve levels are not attained, the Company shall pay US\$0.10 per barrel of oil produced, to a maximum of US\$1,000,000. As this condition has not been met, this amount has not accrued.
- US\$900,000 upon the completion of 60 days of commercial production. As this condition has not been met, this amount has not accrued.

Furthermore, the Company will pay a monthly management retainer of US\$30,000 which will commence upon the date of the drill rig arriving at the OML 90 Project and ending on the commencement of commercial production. The Company will provide funds required to finance the OML 90 Project to its initial production of hydrocarbons (oil) on a commercially viable scale. Any sunk costs incurred exclusively by the Vendor will be reimbursed up to a maximum of US\$500,000. As this condition has not been met, this amount has not been accrued.

The Company is entitled to a preferential return of 80% of the available cash flow from oil production at OML 90 until all costs of the joint operation (future capital and operating expenditures) incurred by the Company to get the first oil have been fully reimbursed. The remaining 20% of available cash flow during this stage of production is shared between the Company and the Vendor in proportion to their relative percentage interests. After all joint operation costs have been fully recovered by the Company, the remaining revenue shall be shared between the Company and Vendor in proportion to their relative ownership interests.

In March 2015, the DPR began a review of all marginal field licenses to determine whether the current owners have done sufficient work to maintain their licenses. The nature and extent of work required are not clearly defined and there has been no further update from the DPR regarding the status of the title to the OML 90 Project. During the year ended December 31, 2015, the Company decided to write off the exploration and evaluation asset in the amount of \$4,486,965 as a result of this uncertainty.

Balance at January 1, 2013	\$	-
Acquisition cost		207,080
Capitalized cost		<u>752,737</u>
Balance at December 31, 2013	\$	959,817
Capitalized cost		<u>3,127,107</u>
Balance at December 31, 2014	\$	4,086,924
Capitalized cost		400,041
Write-down		<u>(4,486,965)</u>
Balance at December 31, 2015	\$	<u>-</u>

JAMES BAY MINERAL PROPERTY

James Bay Lowlands property (the “Property”)

Introduction

The McFauld’s Lake area has been the focus of many junior exploration companies, beginning with the discovery of significant VMS-style mineralization by Spider Resources in 2003 and more recently with the discovery of high-grade Ni-Cu mineralization in two separate areas by Noront Resources in 2007 and 2008, in addition to Chromite discoveries by Noront and Freewest Resources in 2008 and 2009. The area was previously explored by DeBeers for diamonds in which VMS mineralization was intersected during a drill program for kimberlites. Prior to these exploration activities, the McFauld’s Lake area was not extensively explored.

The exploration targets sought in the McFauld’s Lake area are nickel (Ni), copper (Cu) and platinum group elements (PGE) – known as Ni-Cu-PGE deposits – Chrome (Cr) found in chromite or chromitite deposits – copper, lead (Pb) and zinc (Zn) or Cu-Pb-Zn deposits – known as volcanogenic massive sulphide (VMS) deposits – gold (Au) associated with high sulphide iron formation, gold associated with low sulphide concentrations, and possible diamond deposits associated with kimberlite pipes.

The Company drilled the property during the fall of 2008. A total of 373 samples were collected from 11 holes totalling just over 2100 metres. The drilling program was designed to test airborne geophysical EM conductors discovered through 5 separate surveys.

The Company capitalized a total of \$2,433,662 in exploration and evaluation assets. On June 29, 2012, the Company announced that it had signed an agreement to acquire a 47% interest in a Nigerian oil and gas project (see below).

As a result of the Company's change in focus to pursuing oil and gas assets in Nigeria, the James Bay Property was written off.

In February 2013, the Company engaged MacDonald Mines to complete a GPS survey of all corner claim posts following the proper protocol as defined by the Ministry of Northern Development and Mines ("MNDM"). This survey will form the basis for a report of work, which will be submitted for assessment credits once all data has been reviewed from MacDonald Mines. The data was received from MacDonald Mines in February 2014, submitted as assessment work and accepted in March 2014.

As part of the MacDonald agreement, the Company was obligated to issue 50,000 warrants to MacDonald exercisable for five years with an exercise price equal to the issue price of the financing required to be completed in relation to the change of business. The Company issued 50,000 warrants to MacDonald on October 30, 2014, which coincides with the effective listing of the Company's shares in CSE as oil and gas issuer. The warrants entitle the holder to purchase one common shares of the Company at a price of \$1.25 expiring on October 30, 2019.

On December 19, 2014, the Company settled an aggregate total debt of \$55,338 owing to MacDonald through the issuance of an aggregate of 55,338 units. Each unit is comprised of one common share and one-half warrant. Each warrant is exercisable for a common share at a price of \$1.25 for 5 years from the date of issuance.

During 2015 and 2016, certain of the claims comprising the James Bay Property expired. The remaining claims are up for renewal in 2016 and 2017.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUER WITHOUT SIGNIFICANT REVENUE

EVALUATION COST

In accordance with IFRS 6 "Exploration for and evaluation of mineral resources", only expenditures that can be directly associated with finding specific mineral resources can be capitalized to exploration and evaluation assets. Specifically, all expenditures incurred pre-licensing are not eligible exploration and evaluation asset expenditures and have thus been expensed as evaluation costs.

Effective July 3, 2014, the Company lost control of CINRL and began accounting its investment in CINRL as an equity investment. Prior to loss of control, CINRL accounts were consolidated with the Company's. Consequently, the pre-licensing (evaluation) costs related to pursuing OML 25 are no longer reflected on the Company's statements of loss and comprehensive loss from July 3, 2014 onwards.

During the year-ended December 31, 2014, the Company incurred \$5,041,927 in pre-licensing costs related to pursuing OML-25. The Company incurred an accumulated balance of \$5,208,391 in evaluation costs relating to OML 25 at December 31, 2014. As at December 31, 2014, the Company funded an aggregate amount of \$7,469,271 on OML-25. The loan receivable is classified as impairment on equity investment in the consolidated statements of loss and comprehensive loss.

During the year-ended December 31, 2015, the Company funded an additional \$4,346,585 on OML-25 and received US\$3,500,000 (\$4,459,000) of repayment from CINRL. As at December 31, 2015, the Company funded a net aggregate amount of \$7,356,856 on OML-25.

Included in 2014 evaluation costs balance are OML-25 pre-licensing costs (\$5,041,927) and Ondobit Limited pre-licensing costs (\$60,936). The break-down is as follows:

Description	2014	2013
	\$	\$
Management fees ⁽ⁱ⁾	268,270	263,205
Consulting fees ⁽ⁱⁱ⁾	2,832,212	20,200
Travel, meals and accommodation	218,585	135,589
Professional fees ⁽ⁱⁱⁱ⁾	343,755	49,433
Technical reports	170,336	-
Environmental	62,186	-
Due diligence	11,049	-
License and permit	3,359	-
Commitment fees ^(iv)	908,638	-
Amortization	13,644	13,279
General and administrative expense	270,830	155,511
Balance	5,102,864	637,217

Note

(i) Management fees

Included in management fees is a balance of \$11,405 (2013 – a credit balance of \$6,375) non-cash share-based payments made to an officer of the Company.

(ii) Consulting fees

Non-cash, share based payment to M2 Advisors (“consultant”)

On February 4, 2015, the Company issued to a consultant 3,500,000 common shares in the capital of the Company. The shares were issued in accordance with the terms of a service agreement between the Company and CINRL completed during the year ended December 31, 2014. The shares were subject to a statutory hold period of four months from the date of issuance. At December 31, 2014, the Company recorded a value of \$2,341,500 as shares to be issued on the statement of financial position. Included in consulting fees is a balance of \$Nil (December 31, 2014 - \$2,341,500) in non-cash share based payments.

Anbas Energy System (“Anbas”)

In June 2014, CINRL was selected as the winning bidder for a 45% participating interest in OML 25. Crestar engaged a local professional consulting firm to provide services during the pre-bid and post bid advisory which includes data room document review, review of crude handling agreement, review of crude sales off-take agreement, technical supports, legal and advisory supports among other services. Included in consulting fees is approximately \$456,750 (US\$413,400) pertaining to these professional services.

(iii) Professional fees

The Company retained Nigerian legal counsel along with our Canadian legal counsel to advise in project related and general corporate matters.

(iv) Commitment fees

The Company undertook to pay non-refundable financing fees of \$908,638 (US\$600,000) to arrangers and an underwriter who has been engaged to assist the Company in securing financing in the bidding for OML 25.

PETROLEUM PROPERTY INTERESTS

In May 2013, the Company received licensing approval to explore the area on the Ogedeh Project. Since then, all expenditures directly associated with finding specific mineral resources subsequent to May 17, 2013 were capitalized to petroleum property interest.

During the year-ended December 31, 2015, the Company decided to focus its efforts on OML-25 and wrote off its interest in OML 90. Below are details of expenditures spent on OML 90:

Description	Year ended	Year ended	Year ended	Total
	December 31, 2015	December 31, 2014	December 31, 2013	
	\$	\$	\$	\$
Acquisition costs	-	-	207,080	207,080
Management and consulting fees	168,319	163,082	410,544	741,945
Environmental	-	92,161	-	92,161
Travel, meals and accommodation	-	4,210	17,205	21,415
Professional fees	20,158	16,467	8,790	45,415
Legal fees	12,122	28,216	5,067	45,405
Share-based payments ⁽ⁱ⁾	-	2,704,089	23,852	2,727,941
Amortization	12,297	7,507	21,760	41,564
General and administrative expense	187,145	111,375	265,519	564,039
Balance	400,041	3,127,107	959,817	4,486,965

Note

⁽ⁱ⁾ Share-based payments

On March 21, 2011, the Company signed a memorandum of understanding (the "MoU") to conduct due diligence, and if a suitable target is identified, to form a special purpose vehicle (the "SPV") with D&H Solution AS ("D&H") to further evaluate the identified oil and gas opportunities in Nigeria, and if suitable, negotiate an agreement to acquire and develop such assets.

On January 5, 2012, a new agreement was signed with D&H. The new agreement called for the transfer of all Nigerian agreements and the corporations that held these agreements into a wholly owned Nigerian subsidiary of the Company. This subsidiary JBENL was incorporated on February 27, 2012. In addition, the Company agreed to retain certain senior management of D&H as senior management of JBENL. In consideration, the Company agreed to issue to D&H share based compensation in the form of units consisting of one common share and one half of one common share purchase warrant, each whole common share purchase warrant entitling the holder to acquire one common share at a price of \$1.25 for a period of two years from issuance. The units were to be issued as follows:

- 3,000,000 units upon the closing of a definitive agreement being entered into with regards to an acquisition of an interest in an oil and gas project in Nigeria and upon attaining mining licenses from the Ministry of Mines in Nigeria; and
- 3,000,000 units upon the Company reaching 1,500 barrels oil equivalent ("BOE") per day or a minimum recoverable estimate of 50 million BOE.

On July 31, 2014, the agreement dated January 5, 2012, was terminated. In exchange for this termination, the Company has agreed to issue 3,000,000 units of the Company to D&H. The Company issued these units on October 30, 2014, the first day the Company's shares were listed on CSE as an oil and gas issuer. Each unit is comprised of

one common share and one-half of one common purchase warrant. Each warrant comprising part of the units is exercisable for a common share at a price of \$1.25 for 2 years from the date of issuance.

The estimated fair value of the common shares was \$2,220,000 using the stock price on October 30, 2014. The estimated fair value of the warrants was \$442,987 using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.01% and an expected life of 2 years.

Included in share-based payments is an aggregate \$2,662,987 non-cash payment to D&H Solution AS. The remaining balance of \$64,954 represents the accretion of share-based compensation for stock options issued in 2012 to the President and CEO of the James Bay subsidiary companies.

RESULTS OF OPERATIONS

Revenue

The Company is in the exploration and evaluation stage and therefore, did not have revenues from operations. In 2015, the Company recognized \$1,392,004 in income from equity investment in CINRL. During the year ended December 31, 2015, CINRL recorded US\$11,000,000 in income from its Nigerian partner.

Expenses

The Company recorded total expenses of \$1,746,404 for the year ended December 31, 2015 (December 31, 2014 - \$6,276,400). The significant decrease in expenses is mainly attributable to the deconsolidation of CINRL effective July 3, 2014. Prior to the loss of control in CINRL (January 1 – July 3, 2014), the Company recorded \$5,102,863 in evaluation costs.

For the year ended December 31, 2015, the Company closed \$2,999,895 convertible debentures which bear 15% interest per annum. As a result, the Company has an increase of \$329,925 in interest expense compared to the same period in 2014. In addition, the Company incurred \$606,494 of management fees, reflecting an increase of \$230,449 from the same period in 2014. The increase in management fees is mainly due to the reduction in management fees charged to CINRL. On May 4, 2015, the Company granted 5,285,000 stock options to directors, officers, consultants and employees of the Company and recorded \$166,313 in share based payments, an increase of \$164,887 compared to 2014. Lastly, the Company incurred \$168,563 in professional fees, reflecting a decrease of \$187,089 compared to the same period in 2014. During the year, the Company received approximately \$136,000 reimbursement of legal fees from an insurance company.

Fourth quarter total expense was \$131,746, reflecting a decrease of \$1,858,713 from the same period in 2014.

Net loss and comprehensive loss

For the year ended December 31, 2015, the Company recorded net loss and comprehensive loss of \$5,942,680 (December 31, 2014 - \$7,657,406), reflecting a decrease of \$1,714,726 from the same period in 2014. The decrease from total expenses, as noted above, is offset by write off of OML 90 of \$4,486,965. In addition, the Company recognized \$1,392,004 (2014 - \$Nil) of income and \$1,279,589 (2014 - \$2,260,880) of impairment on equity investment in CINRL. The Company recognized \$88,000 of deferred income tax recovery due to the tax impact on convertible debentures.

Fourth quarter net loss and comprehensive loss was \$5,729,836, reflecting an increase of \$2,233,656 compared to the same period in 2014. The write off of OML 90 was recorded in the fourth quarter in 2015.

CASH FLOWS

Operating Activities

The Company had a net cash outflow of \$1,214,768 (December 31, 2014 - \$4,305,445) from operating activities for the year ended December 31, 2015. The decrease in cash outflow of \$3,090,677 is mainly attributable to the

reduction of evaluation costs incurred in CINRL. Fourth quarter cash provided by operating activities was \$127,284, reflecting an increase of \$1,115,109 from the same period in 2014.

Investing Activities

The Company had a net cash outflows of \$264,784 (December 31, 2014 – cash outflow of \$396,385) from investing activities for the year ended December 31, 2015. The Company received \$4,459,000 (US\$3,500,000) from CINRL and advanced \$4,323,743 to CINRL. Fourth quarter cash used in investing activities was \$1,119,236, reflecting an increase of \$1,980,513 from the same period in 2014.

Financing Activities

The Company had a net cash inflow of \$2,667,776 (December 31, 2014 - \$4,798,174) from financing activities for the year ended December 31, 2015. During the year, the Company closed three tranches of private placements for a total proceeds of \$1,649,970 (2014 - \$5,561,090). In addition, the Company received \$1,017,806 (2014 - \$1,553,893) of advances and repaid \$Nil (2014 - \$ 1,881,978) from shareholders. Fourth quarter cash provided from financing activities was \$19,608, an increase of \$487,134 from the same period in 2014.

SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION

Selected data from James Bay's financial statement for the year ending December 31, 2015 and for the two preceding financial years are as follows:

	2015 \$	2014 \$	2013 \$
Interest expense	(354,003)	(24,078)	(12,215)
Expenses	1,746,404	6,276,400	2,061,527
Net loss and comprehensive loss attributable to:			
• Non-controlling interest	-	2,208,438	113,405
• Common shareholders	5,942,680	5,448,968 ⁽ⁱ⁾	1,773,463
Basic and diluted loss per share attributable to the common shareholders of James Bay	0.14	0.24	0.06
Petroleum property interest	-	4,086,924 ⁽ⁱⁱ⁾	959,817
Total assets	1,588,053	4,568,423	2,702,931
Total liabilities	3,270,283	883,125	2,673,447
Shareholders' equity (deficit)	(1,682,230)	3,685,298	107,561
Non-controlling interest	-	-	(78,077)

Notes

(i) Net loss and comprehensive loss

In 2014, the Company incurred in excess of \$5.1 million in evaluation costs as compared to approximately \$637,000 in 2013. The evaluation costs mainly relate to expenditures incurred in the successful bidding of the OML 25 Project. The material expenses consisted of consulting fees that account for approximately \$1,342,000, professional fees of approximately \$343,700 and commitment fees of approximately \$2,398,700. Included in commitment fee is a balance of \$2,341,500 (December 31, 2013 - \$nil) in non-cash share based payments.

Prior to June 2014, the Company accounted for CINRL using the consolidation method. Effective July 3, 2014, the Company lost control of CINRL. The change in accounting policy from consolidation to the equity method resulted in \$29,132,581 of gain on deconsolidation of Crestar. This is offset by \$27,991,600 of break fees incurred in CINRL and \$2,569,913 impairment on equity investment in James Bay. The net impacts are the increase in the consolidated net loss and comprehensive loss is approximately \$1,428,932.

(ii) Petroleum property interest

The Company incurred approximately \$3,127,000 in petroleum property interest costs in fiscal 2014 as compared to approximately \$959,800 in fiscal 2013, of which approximately \$2,704,000 relates to non-cash, share-based payment.

SUMMARY OF QUARTERLY RESULTS

	Quarter-ended			
	December 31, 2015 \$	September 30, 2015 \$	June 30, 2015 \$	March 31, 2015 \$
Working capital (deficiency)	942,395	2,332,520	(235,850)	(1,872,895)
Petroleum property interest	-	4,323,304	4,268,021	4,182,685
Operating expenses	309,693	189,398	781,989	465,324
Interest expense	169,178	111,446	61,031	12,348
Net (income) loss and comprehensive (income) loss	5,729,836	(2,527,528)	1,665,007	1,075,365
Net loss (income) and comprehensive loss (income) per share attributable to the common shareholders of James Bay	0.14	(0.04)	0.04	0.03

	Quarter-ended			
	December 31, 2014 \$	September 30, 2014 \$	June 30, 2014 \$	March 31, 2014 \$
Working capital (deficiency)	(610,170)	91,457	(1,336,282)	(909,376)
Petroleum property interest	4,086,924	1,202,286	1,182,752	1,013,615
Operating expenses	2,168,406	2,073,547	705,925	1,328,522
Interest expense	4,457	4,831	9,791	4,999
Net loss and comprehensive loss attributable to:				
• Non-controlling interest	695,275	588,203	290,772	634,188
• Common Shareholders	2,800,905	1,523,041	414,399	710,623
Net loss and comprehensive loss per share attributable to the common shareholders of James Bay	0.02	0.05	0.01	0.02

Notes: Net loss per share on a diluted basis is the same as basic net loss per share, as all outstanding stock options and warrants are anti-dilutive.

LIQUIDITY AND OUTLOOK

As at December 31, 2015, the Company had no source of operating cash inflows and reported a net loss and comprehensive loss of \$5,942,680 for the year and a deficit of \$22,944,262. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain equity capital and financing for its working capital and for the exploration, development and operation of its properties.

The Company's opinion concerning liquidity and its ability to avail itself in the future of the financing options mentioned above are based on currently available information. To the extent that this information proves to be inaccurate, future availability of financing may be adversely affected. Factors that could affect the availability of financing include the Company's performance (as measured by various factors including the progress and results of its exploration work) and equity markets, investor perceptions and expectations of past and future performance, the global financial climate.

CAPITAL RESOURCES

Common shares

At December 31, 2015 and April 20, 2016, the Company had 41,474,070 common shares issued and outstanding.

Stock options

At December 31, 2015 and April 20, 2016, a total of 6,135,000 stock options were issued and outstanding with expiry dates ranging from June 1, 2017 to September 15, 2020. The weighted average exercise price for all stock options is \$0.29. All stock options entitle the holder to purchase common shares of the Company.

Warrants

At December 31, 2015 and April 20, 2016, the Company had 8,730,844 issued and outstanding warrants with expiry dates ranging from October 30, 2016 to December 19, 2019. The weighted average exercise price for all warrants is \$1.24. All warrants entitle the holder to purchase common shares of the Company.

FINANCIAL INSTRUMENTS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no significant changes in the risks, objectives, policies and procedures from the previous period.

Credit risk

The Company's credit risk is primarily attributable to cash and amounts receivable. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to cash and amounts receivable is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have liquidity to meet liabilities when due. At December 31, 2015, the Company had cash of \$1,321,139 (December 31, 2014 - \$132,915) to settle current liabilities of \$566,493 (December 31, 2014 - \$883,125). The Company has working capital of \$942,395 (December 31, 2014 – working capital deficiency of \$610,170). The Company's financial liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

Currency Risk

The reporting currency of the Company is in Canadian dollars. The Company enters into transactions denominated in United States dollars and Nigerian naira for which the related expenses and accounts payable balances are subject to exchange rate fluctuations. The functional currency of each of the Company's operating subsidiaries is the United States dollar. The Company does not specifically hedge its exposure to foreign currency.

Market risk

(a) Interest rate risk

The Company has cash balances and interest-bearing debt due to convertible debenture holders as described in Note 11. The Company's current policy is to invest excess cash in investment-grade short-term guaranteed investment

certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Price risk

The ability of the Company to pursue its resource interests and the future profitability of the Company is directly related to the market price of oil and gas.

(c) Foreign currency risk

The Company is subject to foreign exchange risk as the Company has certain assets and liabilities, and makes certain expenditures, in US dollars and Nigerian Naira. The Company is therefore subject to gains and losses due to fluctuations in the US dollar and the Nigerian Naira relative to the Canadian dollar. The Company does not hedge its foreign exchange risk.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve-month period.

As at December 31, 2015, the Company has net monetary liabilities denominated in US dollars of approximately US\$579,000 (December 31, 2014 - US\$326,887). A 10% change in the value of the Canadian dollar relative to the US dollar would result in a corresponding change in net loss of approximately USD\$57,900 (December 31, 2014 - \$32,689) based on the balance of these amounts held in US dollars at December 31, 2015.

Fair Value

The carrying value of cash, amounts receivable, accounts payable and accrued liabilities and due to shareholder approximate their fair value due to the relatively short periods to maturity of the financial instruments. The carrying value of the convertible debentures approximates its fair value as a result of recording the convertible debentures at its estimated fair value when it was received during 2015.

Fair value hierarchy and liquidity risk disclosure

Fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). As at December 31, 2015 and 2014, the Company had no financial instruments carried at fair value.

RECENT ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES

Recent accounting pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2016 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following has not yet been adopted and is being evaluated to determine its impact on the Company.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted though management does not anticipate early adoption of the standard.

IFRS 11 – Joint Arrangements (“IFRS 11”) was amended in May 2014 adding new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. This amendment becomes effective for annual periods beginning on or after January 1, 2016.

IFRS 16 – Leases (“IFRS 16”) was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted if IFRS 15 has also been applied.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016.

Changes in Accounting Policies

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2015. These changes were made in accordance with the applicable transitional provisions.

IAS 24 – Related Party Disclosures (“IAS 24”) was amended by the IASB on December 12, 2013. The amendments clarify the identification and disclosure requirements for related party transactions when key management personnel services are provided by a management entity. The amendments are effective for annual periods beginning on or after July 1, 2014.

RELATED PARTY DISCLOSURES

The consolidated financial statements include balances and transactions with directors and officers of the Company and/or corporations related to them. During the years ended December 31, 2015 and 2014 the Company entered into the following transactions involving related parties:

The Company rents office spaces from corporations with a common officer and a common director. During the year ended December 31, 2015, approximately \$38,527 (December 31, 2013 - \$40,535) was charged by these corporations. The amount is included in office and general expense on the statement of loss and comprehensive loss. As of December 31, 2015, included in accounts payable and accrued liabilities is \$Nil (December 31, 2014 - \$707) owing to these corporations.

The Company incurred legal fees of approximately \$128,354 (December 31, 2014 - \$269,059) with a law firm of which a partner, is a director of the Company. This amount is included in professional fees on the statement of loss and comprehensive loss. As of December 31, 2015, included in accounts payable and accrued liabilities is \$94,379 (December 31, 2014 - \$93,190) owing to this law firm.

In accordance with IAS 24, key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of directors and other members of key management personnel for the year ended December 31, 2015 and year ended December 31, 2014 were as follows:

	December 31, 2015	December 31, 2014
	\$	\$
Management salaries and benefits and director fees	568,067	893,051
Share-based payments	70,895	14,167

During the year ended December 31, 2015, the Company paid \$817,920 (2014 - \$637,263) to two executive officers, of which, \$401,853 (USD \$329,500) (2014 - \$441,053 (USD \$406,884)) has been charged as management fees to CINRL.

Included in accounts payable and accrued liabilities as at December 31, 2015 is approximately \$2,326 (December 31, 2014 - \$2,496) of management travel expenses reimbursement and \$20,000 (December 31, 2014 - \$40,000) of director fees owing.

All of the above amounts payable to related parties are unsecured, non-interest bearing, with no fixed terms of repayment.

See also Notes 10, 11, 12, and 19 of the consolidated financial statements.

COMMITMENTS AND CONTINGENCIES

The Company is party to certain management contracts, which contain clauses requiring additional payments of up to \$1,780,000 be made upon the occurrence of certain events such as a change of control and additional payments of up to \$874,000 be made upon termination of contracts. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements. As of December 31, 2015, under these management contracts, management has committed to \$745,000 of salaries and benefits due within one year.

	Nigeria ⁽ⁱ⁾	Canada	Total
	\$	\$	\$
2016	168,000	79,000	247,000
2017	126,000	138,000	264,000
2018	-	192,000	192,000
2019	-	17,000	17,000
Total	294,000	426,000	720,000

⁽ⁱ⁾Lease renewal at the Company's option

The lease cost for the period January 2016 to September 2016 was paid in advance and \$124,560 (US\$90,000) is included in current prepaid expenses as at December 31, 2015.

During 2013, the Company entered into an agreement with a corporation which will work with the Company to facilitate the acquisition of oil and gas projects. Pursuant to the agreement, the Company will pay a fee of 2% of the transaction cost on the closing of an acquisition. The Company may also be required to pay an additional fee of 2% of the transaction cost in equal quarterly payments over 10 years. The agreement has expired and as a triggering event has not taken place, no contingent payments have been reflected in these consolidated financial statements.

The Company's exploration and evaluation activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

The Company is party to legal proceedings in the ordinary course of its operations related to legally binding agreements with a third party. As at December 31, 2015, one such proceeding was ongoing. The Company believes this claim to be without merit. Management does not expect the outcome of this proceeding to have a materially adverse effect on the results of the Company's financial position or results of operations and therefore this amount has not been reflected in these financial statements. Should any losses result from the resolution of this dispute, that amount will be charged to operations in the year that it is determined.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

RISKS AND UNCERTAINTIES

The Company, through its subsidiary, holds interest in a petroleum property in Nigeria. As such, it is exposed to the laws governing the Nigerian petroleum industry with respect to matters such as taxation, environmental compliance, and other regulatory and political factors as well as shifts in politics and labor unrest, any of which could adversely affect the Company and its future exploration and production activities.

Additional Capital

The Company conducted due diligence to identify potential acquisition targets of onshore/offshore Nigerian oil and gas projects. If the results are favourable, Company will require additional capital which may come from future financings. There can be no assurance that the Company will be able to raise such additional capital if and when required on terms it considers acceptable.

No History of Profitability

The Company is an exploration company with no history of profitability. There can be no assurance that the operations of the Company will be profitable in the future. The Company has limited financial resources and will require additional financing to further explore, develop, acquire, retain and engage in commercial production on its property interests and, if financing is unavailable for any reason, the Company may become unable to acquire and retain its mineral concessions and carry out its business plan.

Government Regulations

The Company's exploration operations are subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. For the Company to carry out mining activities, exploitation licenses must be obtained and kept current. There is no guarantee that the Company's exploitation licenses would be extended or that new exploitation licenses would be granted. In addition, such exploitation licenses could be changed and there can be no assurances that any application to renew any existing licenses will be approved. The Company may be required to contribute to the cost of providing the required infrastructure to facilitate the development of its properties. The Company will also have to obtain and comply with permits and licenses which may contain specific conditions concerning operating procedures, water use, waste disposal, spills, environmental studies, abandonment and restoration plans and financial assurances. There can be no assurance that the Company will be able to comply with any such conditions.

Market Fluctuation and Commercial Quantities

The market for minerals is influenced by many factors beyond the control of the Company such as changing production costs, the supply and demand for resources, the rate of inflation, the inventory of resources producing companies, the international economic and political environment, changes in international investment patterns, global or regional consumption patterns, costs of substitutes, currency availability and exchange rates, interest rates, speculative activities in connection with resources, and increased production due to improved extractor and production methods. The resource industry in general is intensely competitive and there is no assurance that, even if commercial quantities and qualities of resources are discovered, a market will exist for profitable sale. Commercial viability of precious and base metals and oil and gas deposits may be affected by other factors that are beyond the Company's control including particular attributes of the deposit such as its size, quantity and quality, the cost of mining and processing, proximity to infrastructure and the availability of transportation and sources of energy, financing, government legislation and regulations including those relating to prices, taxes, royalties, land tenure, land use, import and export restrictions, exchange controls, restrictions on production, as well as environmental protection. It is impossible to assess with certainty the impact of various factors which may affect commercial viability so that any adverse combination of such factors may result in the Company not receiving an adequate return on invested capital.

Mining Risks and Insurance

The Company is subject to the risks normally encountered in the mining industry, such as unusual or unexpected geological formations, cave-ins or flooding. The Company may become subject to liability for pollution, damage to life or property and other hazards of mineral exploration against which it or the operator of its exploration programs cannot insure or against which it or such operator may elect not to insure because of high premium costs or other reasons. Payment of such liabilities would reduce funds available for acquisition of mineral prospects or exploration and development and could have a material adverse effect on the financial position of the Company.

Competition

The mineral exploration and mining industry is competitive in all phases of exploration, development and production. The Company competes with a number of other entities and individuals in the search for and the acquisition of attractive properties. As a result of this competition, the majority of which is with companies with greater financial resources than the Company, the Company may not be able to acquire attractive properties in the future on terms it considers acceptable. Finally, the Company competes with other resource companies, many of whom have greater financial resources and/or more advanced properties that are better able to attract equity investments and other capital. The ability of the Company to acquire attractive properties in the future depends not only on its success in exploring and developing its present properties and on its ability to select, acquire and bring to production suitable properties or prospects for exploration, mining and development. Factors beyond the control of the Company may affect the marketability of minerals mined or discovered by the Company.

Environmental Protection

The mining and mineral processing industries are subject to extensive governmental regulations for the protection of the environment, including regulations relating to air and water quality, mine reclamation, solid and hazardous waste handling and disposal and the promotion of occupational health and safety which may adversely affect the Company or require it to expend significant funds.

Aboriginal Claims

Aboriginal rights may be claimed on Crown or other types of tenure with respect to which mining rights have been granted. The Company is not aware of any aboriginal claims having been asserted or any legal actions relating to native issues having been instituted with respect to any of the mineral claims in which the Company has an interest. Should aboriginal claims be made against the Property and should government or the courts in favor of the aboriginal people resolve such a claim, it could materially adversely affect the business of James Bay only for the James Bay lowlands property. The Company is fully aware of the mutual benefits afforded by cooperative relationships with indigenous people in conducting exploration activity and is fully supportive of measures established to achieve such cooperation.

Conflicts of Interest

Certain of the directors and officers of the Company may also serve as director and officer of other companies involved in gold and precious metal or other natural resource exploration and development and consequently, the possibility of conflict exists. Any decisions made by such directors involving the Company will be made in accordance with the duties and obligations of directors to deal fairly and in good faith with the Company and such other companies. In addition, such directors declare, and refrain from voting on any matters in which such directors may have a conflict of interest.

Additional Information

Additional information relating to the Company can also be found on SEDAR.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Stephen Shefsky	Founder and Director, President & CEO
Wayne Egan	Non-Executive Chairman
Mark Brennan	Founder and Director
Jon Pereira	Director
Jean J. Gauthier	Director
Adeniyi Olaniyan	Director

OFFICE LOCATION

Corporate Head Office

79 Wellington Street West,
TD Tower South, Suite 2100
Toronto, ON
M5K 1H1

Nigeria Office

2 Obudu Close, Osborne Foreshore Estate
Ikoyi Lagos, Lagos, Nigeria

SUBSIDIARY COMPANIES

James Bay Energy, LLC
James Bay Energy Nigeria Limited
D&H Energy Nigeria Limited
Ondobit Limited

LEGAL COUNSEL

WeirFoulds LLP

Toronto, Ontario, Canada

Sefton Fross

Lagos, Nigeria

Amsterdam & Partners LLP

London, England

AUDITOR

McGovern, Hurley, Cunningham, LLP

Toronto, Ontario, Canada

KPMG Nigeria

Lagos, Nigeria

REGISTRAR & TRANSFER AGENT

TMX Equity Transfer Services Inc.
Toronto, Ontario, Canada

BANKER

CIBC

Toronto, Ontario, Canada

Eco Bank, Zenith and First Bank

Lagos, Nigeria

STOCK EXCHANGE

Canadian Stock Exchange - CNSX
Ticker symbol "JBR"



JAMES BAY RESOURCES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

JAMES BAY RESOURCES LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

<u>INDEX</u>	<u>PAGE</u>
Independent Auditor's Report	1
Consolidated Statements of Financial Position	2
Consolidated Statements of Loss and Comprehensive Loss	3
Consolidated Statements of Cash Flows	4
Consolidated Statements of Changes in Equity	5
Notes to the Consolidated Financial Statements	6 - 36

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of James Bay Resources Limited

We have audited the accompanying consolidated financial statements of James Bay Resources Limited and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of loss and comprehensive loss, consolidated statements of cash flows and consolidated statements of changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of James Bay Resources Limited and its subsidiaries as at December 31, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements, which indicates that the Company had continuing losses during the year ended December 31, 2015 and a cumulative deficit as at December 31, 2015. These conditions along with other matters set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP



Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 13, 2016

JAMES BAY RESOURCES LIMITED

Consolidated Statements of Financial Position

Expressed in Canadian dollars

As at December 31,

	2015	2014
	\$	\$
ASSETS		
Current assets		
Cash	1,321,139	132,915
Restricted cash	-	8,333
Prepaid expenses (Note 19)	136,307	106,317
Amounts receivable	51,442	25,390
Total current assets	1,508,888	272,955
Long-term prepaid (Note 8)	-	104,050
Petroleum property interest (Note 8)	-	4,086,924
Equipment (Note 7)	79,165	104,494
Total assets	1,588,053	4,568,423
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 18)	566,493	565,656
Due to shareholder (Note 10)	-	317,469
Total current liabilities	566,493	883,125
Long-term liabilities		
Convertible debentures (Note 11)	2,703,790	-
Total Liabilities	3,270,283	883,125
EQUITY		
Common shares (Note 12)	17,142,711	14,801,211
Share-based payments reserve (Note 13)	532,700	302,000
Warrant reserve (Note 14)	2,214,569	2,214,569
Shares to be issued (Note 12)	-	2,341,500
Warrants to be issued (Notes 12 and 14)	1,125,600	1,125,600
Convertible debentures (Note 11)	246,452	-
Deficit	(22,944,262)	(17,099,582)
Total common shareholders' (deficit) equity	(1,682,230)	3,685,298
Total equity and liabilities	1,588,053	4,568,423

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

COMMITMENTS AND CONTINGENCIES (Notes 8, 11 and 19)

APPROVED ON BEHALF OF THE BOARD:

Signed "STEPHEN SHEFSKY", Director

Signed "MARK BRENNAN", Director

See accompanying notes to the consolidated financial statements.

JAMES BAY RESOURCES LIMITED
Consolidated Statements of Loss and Comprehensive Loss
Expressed in Canadian dollars
For the years ended December 31,

	2015	2014
	\$	\$
Expenses		
Management salaries and benefits (Note 18)	606,494	376,045
Professional fees (Note 18)	168,563	355,652
Office and general (Note 18)	267,218	302,842
Exploration costs - James Bay Lowlands (Note 9)	6,142	42,468
Share based payments (Note 13)	166,313	1,426
Evaluation costs	-	5,102,863
Transfer agent and listing fees	21,437	33,017
Due diligence	101,951	41,067
Business development (recovery)	49,321	(9,932)
Interest expense (Notes 10 and 11)	354,003	24,078
Amortization	4,962	6,874
Loss before the undernoted	(1,746,404)	(6,276,400)
Foreign exchange gain (loss)	90,274	(62,783)
Break fee (Note 8)	-	(27,991,600)
Gain on deconsolidation (Note 15)	-	28,823,548
Gain on settlement of debt for equity (Notes 12 and 14)	-	110,709
Impairment on equity investment (Note 15)	(1,279,589)	(2,260,880)
Income from equity investment (Note 15)	1,392,004	-
Write down of petroleum property interests (Note 8)	(4,486,965)	-
Loss before tax	(6,030,680)	(7,657,406)
Deferred income tax recovery (Note 20)	88,000	-
Net loss and comprehensive loss for the year	(5,942,680)	(7,657,406)
Loss for the year attributable to:		
Non-controlling interest (Note 15)	-	(2,208,438)
Common shareholders	(5,942,680)	(5,448,968)
Net loss and comprehensive loss for the year	(5,942,680)	(7,657,406)
Loss per share attributable common shareholders		
Basic and diluted	(0.14)	(0.24)
Weighted average number of shares outstanding		
Basic and diluted	41,138,454	31,900,948

See accompanying notes to the consolidated financial statements.

JAMES BAY RESOURCES LIMITED

Consolidated Statements of Cash Flows

Expressed in Canadian dollars

For the years ended December 31,

	2015	2014
	\$	\$
Cash used in operating activities:		
Net loss for the year	(5,942,680)	(7,657,406)
Add (deduct) items not affecting cash:		
Amortization	4,962	39,994
Share-based payments	166,313	11,405
Shares and warrants issued and to be issued for services	-	2,389,728
Gain on settlement of debt for equity	-	(110,709)
Accrued interest	356,053	1,364
Income from equity investment (Note 15)	(1,392,004)	-
Income tax recovery	(88,000)	-
Impairment on equity investment (Note 15)	1,279,589	-
Non-cash loss on deconsolidation	-	78,077
Write down of petroleum property interests	4,486,965	-
Net change in non-cash working capital	(85,966)	942,102
Net cash (used in) operating activities	(1,214,768)	(4,305,445)
Cash provided by investing activities:		
Interest in petroleum property interests	(400,041)	(394,544)
Advance to equity investment (Note 15)	(4,323,743)	-
Repayment from equity investment (Note 15)	4,459,000	-
Acquisition of equipment	-	(1,841)
Net cash provided by investing activities	(264,784)	(396,385)
Cash provided by financing activities:		
Proceeds from letter of credit (Note 8)	-	33,165,000
Repayments on letter of credit (Note 8)	-	(33,165,000)
Proceeds from convertible debentures	1,649,970	-
Advances from shareholders	1,017,806	1,553,893
Repayments to shareholders	-	(1,881,978)
Proceeds from private placements	-	5,561,090
Share issue costs on private placement	-	(434,831)
Net cash provided by financing activities	2,667,776	4,798,174
Net cash flow during the year	1,188,224	96,344
Cash, beginning of year	132,915	36,571
Cash, end of year	1,321,139	132,915

Supplemental information (Note 21)

See accompanying notes to the consolidated financial statements.

JAMES BAY RESOURCES LIMITED
Consolidated Statements of Changes in Equity
Expressed in Canadian dollars

	Common shares \$	Share-based payments reserve \$	Warrants reserve \$	Common shares and warrants to be issued \$	Convertible debentures \$	Deficit \$	Total equity \$
Balance, December 31, 2014	14,801,211	302,000	2,214,569	3,467,100	-	(17,099,582)	3,685,298
Shares issued to M2 Advisors	2,341,500	-	-	(2,341,500)	-	-	-
Stock options expired	-	(98,000)	-	-	-	98,000	-
Share-based payments	-	328,700	-	-	-	-	328,700
Convertible debentures (net of tax)	-	-	-	-	246,452	-	246,452
Loss for the year	-	-	-	-	-	(5,942,680)	(5,942,680)
Balance, December 31, 2015	17,142,711	532,700	2,214,569	1,125,600	246,452	(22,944,262)	(1,682,230)
	Common shares \$	Share-based payments reserve \$	Warrants reserve \$	Common shares and warrants to be Issued \$	Non-controlling interest \$	Deficit \$	Total equity \$
Balance, December 31, 2013	9,261,904	287,833	-	-	(78,077)	(9,442,176)	29,484
Private placements	6,731,094	-	-	-	-	-	6,731,094
Common shares to be issued	-	-	-	2,341,500	-	-	2,341,500
Finder warrants to be issued	(753,000)	-	(372,600)	1,125,600	-	-	-
Share issue costs	(421,224)	-	(208,424)	-	-	-	(629,648)
Issuance of warrants as part of private placement	(2,228,260)	-	2,228,260	-	-	-	-
Issuance of finder warrants	(84,275)	-	84,275	-	-	-	-
Issuance of warrants in connection with exploration costs	-	-	-	-	-	-	-
Issuance of units in connection with OML 90	2,220,000	-	23,126	-	-	-	23,126
Issuance of units in connection with debt for equity	74,972	-	442,987	-	-	-	2,662,987
Share-based payments	-	14,167	16,945	-	-	-	91,917
Loss of control of CINRL	-	-	-	-	78,077	(2,208,438)	(2,130,361)
Loss for the year	-	-	-	-	-	(5,448,968)	(5,448,968)
Balance, December 31, 2014	14,801,211	302,000	2,214,569	3,467,100	-	(17,099,582)	3,685,298

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

1. NATURE OF OPERATIONS AND GOING CONCERN

James Bay Resources Limited (the "Company" or "James Bay") was incorporated on November 5, 2007. The Company is currently involved in the exploration and evaluation of oil and gas interests in Nigeria and has interests in resource properties in the Porcupine mining district of Ontario, Canada (the "Claims"). The Company has not determined whether its properties contain economically recoverable reserves. The Company has not yet discovered any deposits, nor has it earned any revenues.

The business of exploring for minerals and oil and gas involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable operations. The Company's continued existence is dependent upon the preservation of its interests in its underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, the ability of the Company to secure an interest in new properties or the ability of the Company to complete additional financings, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

As at December 31, 2015, the Company had a working capital of \$942,395 (December 31, 2014 - working capital deficiency \$610,170), had incurred losses since inception, and had an accumulated deficit of \$22,944,262 (December 31, 2014 - \$17,099,582) which has been funded primarily by the issuance of equity. The ability of the Company to continue as a going concern is dependent upon its ability to raise sufficient funds to meet its obligations as they become due. While the Company has been successful in securing financing in the past, there is no assurance that it will be able to do so in the future. Because of continuing operating losses, the Company's continuance as a going concern is dependent on its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operation.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore, be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material. The material uncertainties noted above together cast significant doubt upon the Company's ability to continue as a going concern.

On October 29, 2014, the Company voluntarily delisted its shares from the TSX Venture Exchange ("TSXV"). The Company's shares are listed on the Canadian Securities Exchange ("CSE") effective October 30, 2014. Upon delisting of the Company's shares from the TSXV, the Company did not complete its previously announced Change of Business ("COB") to oil and gas issuer as it is a specific procedure under TSXV policies and rules. The Company is listed on the CSE as an oil and gas issuer.

The head office, principal address and records office of the Company is located at 79 Wellington Street West, TD Tower South, Suite 2100, P.O. Box 139, Toronto Dominion Centre, Toronto, Ontario, Canada, M5K 1H1. These consolidated financial statements of the Company for year ended December 31, 2015 were approved and authorized for issue by the Board of Directors on April 13, 2016.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

2. BASIS OF PREPARATION

These consolidated financial statements of the Company and its subsidiaries were prepared in accordance with IFRS on a going concern basis, under the historical cost basis. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information. The policies set out below were consistently applied to all the periods presented unless otherwise noted below.

3. RECENT ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES

Recent accounting pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2016 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted though management does not anticipate early adoption of the standard.

IFRS 11 – Joint Arrangements (“IFRS 11”) was amended in May 2014 adding new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. This amendment becomes effective for annual periods beginning on or after January 1, 2016.

IFRS 16 – Leases (“IFRS 16”) was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted if IFRS 15 has also been applied.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

3. RECENT ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES (continued)

IAS 12 – Income Taxes (“IAS 12”) was amended in January 2016 to clarify that, among other things, unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument’s holder expects to recover the carrying amount of the debt instrument by sale or by use; the carrying amount of an asset does not limit the estimation of probable future taxable profits; and estimates for future taxable profits exclude tax deduction resulting from the reversal of deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017. Earlier adoption is permitted.

Changes in Accounting Policies

The Company has adopted the following new standard, along with any consequential amendments, effective January 1, 2015. This change was made in accordance with the applicable transitional provisions.

IAS 24 - Related Party Disclosures (“IAS 24”) was amended by the IASB on December 12, 2013. The amendments clarify the identification and disclosure requirements for related party transactions when key management personnel services are provided by a management entity. The amendments are effective for annual periods beginning on or after July 1, 2014. There was no material impact on the consolidated financial statements.

4. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries.

James Bay Energy Nigeria LLC, USA	100%
James Bay Energy Nigeria Limited, Nigeria	100%
D&H Energy Nigeria Limited, Nigeria	100%
Ondobit Limited, Nigeria	100%
Crestar Integrated Natural Resources Limited, Nigeria	45%*

* During the year ended December 31, 2014, an agreement came into force with a prospective future investor of Crestar Integrated Natural Resources Limited (“CINRL”) to provide CINRL with a loan for the full acquisition cost of the asset. The Company ceased consolidation of CINRL accounts subsequent to this change (Note 15).

Subsidiaries

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

Non-controlling interest represents equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interest is presented as a component of equity. The loss and each component of other comprehensive loss are attributed to non-controlling interests where applicable. See Note 15.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods. Such estimates and assumptions affect the carrying value of assets, the determination of impairment charges of non-current assets, impact decisions as to when exploration and evaluation costs should be capitalized or expensed, and affect estimates for asset retirement obligations and reclamation costs. Other significant estimates made by the Company include factors affecting valuations of share-based payments, warrants and income tax accounts. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

(a) Capitalization of exploration and evaluation assets

Management has determined that exploration and evaluation costs incurred may have future economic benefits. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, proximity of other operating facilities and discoveries, operating management expertise and existing permits. See Note 8 for details of exploration and evaluation assets.

(b) Impairment of exploration and evaluation assets

While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates may include, but are not limited to estimates of the discounted future cash flows expected to be derived from the Company's properties, costs to sell the properties and the appropriate discount rate.

Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, and/or adverse current economics can result in an impairment of the carrying amounts of the Company's exploration and evaluation assets.

(c) Income taxes and recoverability of potential deferred tax assets

The Company is subject to income and other taxes in various jurisdictions. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax filings are subject to audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(d) Share-based payments and warrants

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. Warrants are valued in a similar way. Changes in these assumptions affect the fair value estimates.

(e) Consolidation of subsidiaries

The Company consolidates subsidiaries over which it has control. Management assesses control in accordance with IFRS 10 Consolidated Financial Statements and has determined it controls each of its subsidiaries. Judgement was applied when considering whether the Company controls Crestar Integrated Natural Resources Limited. See Note 15 for details about this investment.

(f) Valuation of investment in associate

The valuation of investment in associate is assessed when events occur that indicate impairment. These indicators include a significant technical difficulty regarding the investee operations, significant adverse changes in the market, economic, or legal environment in which the investee operates, changes in the investee's financial condition, significant financial difficulty of the investee and the investee's liquidity.

(g) Contingencies

Refer to Note 19.

(h) Valuation of equity and liability components of the convertible debentures.

Refer to Note 11.

6. SIGNIFICANT ACCOUNTING POLICIES

(a) Presentation and functional currencies

The presentation currency of the Company and the functional currency of the Company and each of its subsidiaries is the Canadian dollar.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Gains and losses on translation are charged to profit or loss.

(b) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in the share-based payments note.

The fair value is determined at the grant date of the equity-settled share-based payments and is recognized on a graded-vesting basis over the period during which the employee becomes unconditionally entitled to the equity instruments, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Share-based payments (continued)

reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve. Upon exercise of the stock options, the consideration paid, together with the amount previously recognized in share based payments reserve, is recorded as an increase in common shares. Unexercised stock options and warrants are transferred to deficit.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

(c) Income Tax

Current tax

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its deferred tax assets and liabilities on a net basis.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and evaluation assets

Once a license to explore an area has been secured, expenditures on exploration and evaluation activities, net of government assistance received, are capitalized to exploration and evaluation assets. Deferred exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

The Company's property interests are in the exploration and evaluation stage and accordingly, the Company follows the practice of capitalizing all costs relating to the acquisition of, exploration for and evaluation of properties and crediting all revenues received against the cost of the related claims. Such costs include, but are not exclusive to, acquisition, geological, geophysical studies, exploratory drilling and sampling.

At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned properties are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition. The Company recognizes in profit or loss costs recovered on exploration and evaluation assets when amounts received or receivable are in excess of the carrying amount. Upon transfer of "Exploration and evaluation assets" into "Development Assets", all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalised within "Development Assets". After production starts, all assets included in "Development Assets" are transferred to "Producing Properties".

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed. To the extent that exploration and evaluation assets are not expected to be recovered, they are charged to profit or loss.

(e) Equipment

Equipment is carried at cost less accumulated amortization. Amortization is calculated over the estimated useful life of the assets at the following annual rates:

Office equipment	-	20%	declining balance basis
Furniture and fixtures	-	20%	declining balance basis
Computer equipment	-	55%	declining balance basis
Vehicles	-	30%	declining balance basis

(f) Impairment of non-financial assets

The carrying values of capitalized exploration and evaluation assets and equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use. For exploration and evaluation assets, indicators of impairment would include: exploration of a right to explore, no budgeted or planned material expenditures in an area or a decision to discontinue exploration in a specific area.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to profit or loss so as to reduce the carrying amount to its recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment of non-financial assets (continued)

carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss in the period of reversal.

(g) Financial instruments

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, (i.e., the date that the Company commits to purchase or sell the asset).

The Company's financial assets include cash, restricted cash and amounts receivable.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in profit or loss.

The Company evaluates its financial assets at fair value through profit or loss to determine whether the intent to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect, in rare circumstances, to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale or held-to-maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

Loans and receivables

The Company has designated its cash, restricted cash, and amounts receivable as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method ("EIR"), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of loss. The losses arising from impairment are recognised in profit or loss.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; and
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
 - (a) the Company has transferred substantially all the risks and rewards of the asset; or
 - (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. For financial assets carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Company's financial liabilities include accounts payable and accrued liabilities, due to shareholder and convertible debentures.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in profit or loss. The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Other financial liabilities

The Company has designated its accounts payable and accrued liabilities, due to shareholder and convertible debentures as other financial liabilities. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate ("EIR") method. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in profit or loss.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

6. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(g) *Financial instruments (continued)*

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

(h) *Loss per share*

Basic loss per share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding in the period. Diluted loss per share is calculated by assuming that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. In the Company's case, diluted loss per share is the same as basic loss per share for the years ended December 31, 2015 and 2014, as the effects of including all outstanding options and warrants and convertible debentures would be anti-dilutive.

(i) *Decommissioning Liabilities*

A legal or constructive obligation to incur decommissioning liabilities may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either a unit-of-production or the straight-line method as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses. The Company had no material decommissioning liabilities as at December 31, 2015 and 2014.

(j) *Investment in associate*

Investment in associate is accounted for using the equity method based on the Company's ability to exercise significant influence over the operating and financial policies of the investee. Investments of this nature are recorded at original cost and adjusted periodically to recognize the Company's proportionate share of the associate's net income or losses after the date of investment, additional contributions made and dividends received. Investments are written down when there has been a significant or prolonged decline in fair value.

(k) *Compound financial instruments*

Compound financial instruments comprise convertible debentures that can be converted into common shares at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Compound financial instruments (continued)

The liability component is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

7. EQUIPMENT

Cost	Office equipment	Furniture and fixtures	Computer equipment	Vehicles	Total
	\$	\$	\$	\$	\$
Balance December 31, 2013	13,028	129,974	41,618	5,862	190,482
Additions	-	-	1,841	-	1,841
Balance December 31, 2014	13,028	129,974	43,459	5,862	192,323
Additions	-	-	-	-	-
Balance December 31, 2015	13,028	129,974	43,459	5,862	192,323
Accumulated amortization	Office equipment	Furniture and fixtures	Computer equipment	Vehicles	Total
Balance December 31, 2013	2,682	28,772	14,877	1,504	47,835
Amortization	1,646	20,240	16,801	1,307	39,994
Balance December 31, 2014	4,328	49,012	31,678	2,811	87,829
Amortization	1,740	16,194	6,480	915	25,329
Balance December 31, 2015	6,068	65,206	38,158	3,726	113,158
Carrying value	Office equipment	Furniture and fixtures	Computer equipment	Vehicles	Total
Balance December 31, 2014	8,700	80,962	11,781	3,051	104,494
Balance December 31, 2015	6,960	64,768	5,301	2,136	79,165

As at December 31, 2015, the net book value of the Company's equipment by geographic location is as follows: Canada - \$5,589 (December 31, 2014 - \$7,559) and Nigeria \$73,576 (December 31, 2014 - \$96,935).

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

8. PETROLEUM PROPERTY INTERESTS

OML 25 PROJECT

In June 2014, CINRL was selected as the winning bidder for a 45% participating interest in active Oil Mining Lease No. 25 (“OML 25”) in the Niger Delta region, offered by joint venture partners The Shell Petroleum Development Company of Nigeria Limited, Total E&P Nigeria Limited, and Nigerian AGIP Oil Company Limited (collectively the “Shell JV”). Related to the bidding process, a temporary letter of credit of US\$30,000,000 (\$33,165,000) was received by the Company and subsequently repaid. CINRL obtained terms for a loan from a prospective future investor, for the full purchase price of OML 25.

The Nigerian National Petroleum Corporation (“NNPC”) attempted to block the sale and acquire the interest for itself. Crestar commenced injunction proceedings in January 2015 in the Nigerian Federal High Court to bar the Shell JV from effecting a transfer to NNPC or anyone else, which injunctions were granted on a preliminary basis. The Shell JV subsequently sought to discharge the injunctions, but the Federal High Court dismissed the Shell JV’s application on March 6, 2015.

The Federal High Court of Nigeria also ruled in favor of Crestar and granted an injunction in favour of Crestar which froze plans by the NNPC to acquire the 45% participating interest in OML 25 being divested by joint venture partners The Shell Petroleum Development Company of Nigeria Limited, Total E&P Nigeria Limited, and Nigerian AGIP Oil Company Limited. As of the date hereof this injunction continues to remain in place.

In 2014, CINRL incurred US\$26,000,000 (\$27,991,600) in break fees related to the structuring of the OML 25 acquisition. The amount was recorded in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2014.

On July 3, 2014, an agreement came into force with a prospective future investor of CINRL to provide CINRL with a loan for the full acquisition cost of the asset. As consideration, the prospective investor was expected to assume a 55.56% effective interest in the 45% interest acquired from Shell JV in OML 25. Given this agreement in place, the accounting treatment of CINRL changed accordingly from consolidation to the equity method. See Note 15.

OML 90 PROJECT

In June 2012, the Company entered into a Joint Operating Agreement (“JOA”) with an oil and gas field owner in Nigeria (the “Vendor”). Under the terms of the agreement, the Company will acquire a 47% interest in the Ogedeh Marginal Field Award on the Farmed-Out Area within the Oil Mining License 90 (“OML 90 Project”) in Nigeria.

The Company paid US\$50,000 for transfer of due diligence data and administrative fees and US\$50,000 for an exclusivity period. As consideration for the transfer of the interest, the Company is required to pay an aggregate of US\$2,500,000 as follows:

- US\$100,000 due 90 days from the date of execution of JOA or within 24 hours of the execution of the JOA and Deed of Assignment (“DOA”), whichever is earlier (paid in 2012).
- US\$200,000 due upon approval from Department of Petroleum Resources (“DPR”) of the assignment of direct interest in OML 90 project to the Company (paid in 2013).
- US\$300,000 to be released upon the grant of government permit for drilling activity and arrival of a drill rig at the OML 90 project. A preliminary government permit was received in March 2014. As of December 31, 2015, a drill rig has not yet been installed at OML 90. Of the original US\$300,000, US\$100,000 (\$104,050) was paid as an advance. The remaining \$253,320 (US\$200,000) has not yet been paid or accrued. The amount advanced in 2013 was written-off along with the exploration and evaluation asset balance at December 31, 2015.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

8. PETROLEUM PROPERTY INTERESTS (continued)

OML 90 PROJECT (continued)

- US\$1,000,000 upon completion of a final independent report of P1 reserves of at least 7,000,000 proven recoverable barrels of oil, or if such reserve levels are not attained, the Company shall pay US\$0.10 per barrel of oil produced, to a maximum of US\$1,000,000. As this condition has not been met, this amount has not accrued.
- US\$900,000 upon the completion of 60 days of commercial production. As this condition has not been met, this amount has not accrued.

Furthermore, the Company will pay a monthly management retainer of US\$30,000 which will commence upon the date of the drill rig arriving at the OML 90 Project and ending on the commencement of commercial production. The Company will provide funds required to finance the OML 90 Project to its initial production of hydrocarbons (oil) on a commercially viable scale. Any sunk costs incurred exclusively by the Vendor will be reimbursed up to a maximum of US\$500,000. As this condition has not been met, this amount has not been accrued.

The Company is entitled to a preferential return of 80% of the available cash flow from oil production at OML 90 until all costs of the joint operation (future capital and operating expenditures) incurred by the Company to get the first oil have been fully reimbursed. The remaining 20% of available cash flow during this stage of production is shared between the Company and the Vendor in proportion to their relative percentage interests. After all joint operation costs have been fully recovered by the Company, the remaining revenue shall be shared between the Company and Vendor in proportion to their relative ownership interests.

In March 2015, the DPR stated that they were reviewing all marginal field licenses to determine whether the current owners have done sufficient work to maintain their licenses. The nature and extent of work required are not clearly defined and there has been no further update from the DPR regarding the status of the title to the OML 90 Project. During the year ended December 31, 2015, the Company decided to write off the exploration and evaluation asset in the amount of \$4,486,965 as a result of this uncertainty.

Balance at January 1, 2013	\$	-
Acquisition cost		207,080
Capitalized cost		<u>752,737</u>
Balance at December 31, 2013	\$	959,817
Capitalized cost		<u>3,127,107</u>
Balance at December 31, 2014	\$	4,086,924
Capitalized cost		400,041
Write-down		<u>(4,486,965)</u>
Balance at December 31, 2015	\$	<u>-</u>

D&H SOLUTIONS AS

On March 21, 2011, the Company signed a memorandum of understanding (the "MoU") to conduct due diligence, and if a suitable target is identified, to form a special purpose vehicle (the "SPV") with D&H Solution AS ("D&H") to further evaluate the identified oil and gas opportunities in Nigeria, and if suitable, negotiate an agreement to acquire and develop such assets.

On January 5, 2012, a new agreement was signed with D&H. The new agreement calls for the transfer of all Nigerian agreements and the corporations that currently hold these agreements into a wholly owned Nigerian subsidiary of the Company. This subsidiary (James Bay Energy Nigeria Limited, "JBENL") was incorporated on February 27, 2012.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

8. PETROLEUM PROPERTY INTERESTS (continued)

D&H SOLUTIONS AS (continued)

In addition, the Company was to retain certain senior management of D&H as senior management of JBENL. In consideration, the Company has agreed to issue to D&H share based compensation in the form of units consisting of one common share and one half of one common share purchase warrant, each whole common share purchase warrant entitling the holder to acquire one common share at a price of \$1.25 for a period of two years from issuance. The units are to be issued as follows:

- 3,000,000 units upon the closing of a definitive agreement being entered into with regards to an acquisition of an interest in an oil and gas project in Nigeria and upon attaining mining licenses from the Ministry of Mines in Nigeria; and
- 3,000,000 units upon the Company reaching 1,500 barrels oil equivalent (“BOE”) per day or a minimum recoverable estimate of 50 million BOE.

Simultaneously with each issuance of the units above, D&H will receive a further 300,000 stock options exercisable for a period of five years following the date of issue, with the exercise price set in the context of the market on the date of issue.

The obligations created and transactions contemplated by the agreement with D&H are subject to receipt of all requisite corporate, regulatory, shareholder and court approvals (if required) and consents, and, where required, the shareholders of the Company.

On July 31, 2014, the agreement dated January 5, 2012, was terminated in exchange for the following consideration:

- The Company agreed to issue 3,000,000 units of the Company to D&H. The Company issued these units on October 30, 2014, the first day the Company’s shares were listed on CSE as an oil and gas issuer. Each unit is comprised of one common share and one-half of one common purchase warrant. Each warrant comprising part of the units is exercisable for a common share at a price of \$1.25 for 2 years from the date of issuance (Notes 12(b)(v) and 14(v)).
- The Company agreed to convert \$147,288 of debt owing to D&H into the Company’s equity. The Company issued 147,288 units to settle this debt on December 19, 2014. Each unit is comprised of one common share and one half of one common purchase warrant. Each warrant comprising part of the units is exercisable for a common share at a price of \$1.25 for 5 years from the date of issuance (Notes 12(b)(vi) and 14(vi)).

9. MINERAL PROPERTY INTERESTS

James Bay Property, Ontario, Canada

The Company acquired, by staking, certain claims in Ontario, Canada. In February 2013, the Company engaged MacDonald Mines Exploration Ltd. (“MacDonald”) to complete a GPS survey of all corner claim posts following the proper protocol as defined by the Ministry of Northern Development and Mines. This survey formed the basis for a report of work, which was submitted for assessment credits in March 2014. During the year ended December 31, 2015, the Company incurred \$Nil of interest on consulting fees payable (December 31, 2014 - \$3,010) to MacDonald to complete the GPS survey and \$56,142 (December 31, 2014 - \$42,468) in exploration and evaluation costs. These costs were expensed in the statement of loss and comprehensive loss.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

9. MINERAL PROPERTY INTERESTS

James Bay Property, Ontario, Canada (continued)

As part of the MacDonald agreement, the Company was obligated to issue 50,000 warrants to MacDonald exercisable for five years with an exercise price equal to the issue price of the financing required to be completed in relation to the change of business.

The Company issued 50,000 warrants to MacDonald on October 30, 2014 which coincided with the effective listing of the Company's shares on the CSE as an oil and gas issuer. The warrants entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on October 30, 2019. The value of \$23,126 was expensed in the statement of loss and comprehensive loss (Note 14(vii)).

On December 19, 2014, the Company settled an aggregate total debt of \$55,338 owing to MacDonald through the issuance of an aggregate of 55,338 units. Each unit is comprised of one common share and one-half warrant. Each warrant is exercisable for a common share at a price of \$1.25 for 5 years from the date of issuance (Notes 12(b)(vi) and 14(vii)).

During 2015 and 2016, certain of the claims comprising the James Bay Property expired. The remaining claims are up for renewal in 2016 and 2017.

10. DUE TO SHAREHOLDER

The amount due to shareholder was unsecured, bore interest at 6% per annum, and was due on demand. The amount was due to the President and Chief Executive Officer of the Company, who is also a shareholder and director of the Company.

During the year ended December 31, 2015, the Company received additional advances of \$1,017,806 (2014 - \$1,553,893), incurred interest of \$14,650 (2014 - \$20,283) and repaid \$nil (2014 - \$1,881,978). In April 2015, the total full outstanding balance of \$1,349,925, which includes \$16,014 of interest, was converted to a convertible debenture (Note 11).

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

11. CONVERTIBLE DEBENTURES

During the year ended December 31, 2015, the Company issued \$2,999,895 in aggregate principal amount of convertible debentures. The convertible debentures bear interest of 15% per annum, payable semi-annually and mature three years following the date of issuance. The convertible debentures are convertible at a conversion price of \$0.17 per common share.

Date of issuance	\$
April 30, 2015	1,599,925
May 29, 2015	1,324,970
June 12, 2015	75,000
Total	2,999,895

The Company concurrently sold and assigned, pursuant to separate agreements with each subscriber, a pro rata entitlement (based on all the subscribers) for up to an aggregate of 30% of the net proceeds of litigation related to the OML 25 project (Note 8), if any (whether as a result of final judgment by a court of competent jurisdiction or settlement for which no appeal or further proceeding may be taken (the "Final Award")), after deduction of all related costs and taxes incurred by the Company in the litigation discussed in Note 8 (the "Net Final Amount"), payable to the Holders within 60 days from the receipt of the Final Award. In the event the Company prepays the Debentures in full prior to that date which is one year from the date of issue and prior to the date of the Final Award, then the amount payable to the Holders under the agreement will be adjusted to reflect an aggregate entitlement of 15%. Should the Company's litigation be settled or be the subject of a final decision and if the Company is in receipt of settlement funds, the convertible debentures holders will have rights to accelerate the maturity date to 15 days following the date the convertible debentures holders provide written notice to the Company.

The President and CEO of the Company purchased an aggregate of \$1,349,925 of convertible debentures by way of the conversion into convertible debentures of an aggregate of \$1,349,925 of advances (Note 10). A director of the Company purchased an aggregate of \$175,000 of convertible debentures.

In accordance with IFRS, the Company has separated the convertible debentures into debt and equity components on the consolidated statements of financial position using the residual method. The equity component represents the value of the conversion feature and is the difference between the estimated fair value of the liability component and the proceeds received of \$2,999,895. The net present value of the liability component of the convertible debentures has been estimated using an effective interest rate of 20%. The directly attributable transaction costs were allocated to the liability and equity components proportionately. The convertible debentures, net of the equity component and transaction costs, are accreted such that carrying amount of the convertible debenture will equal the face value of the convertible debenture at maturity. The accretion on the convertible debentures is included in interest expense in the consolidated statements of loss and comprehensive loss.

The rate of 20% used in estimating the value of the liability component of the convertible debentures and used to apply the effective interest rate method to the convertible debentures is based on significant management estimation.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

11. CONVERTIBLE DEBENTURES (continued)

	Proceeds \$	Liability Component \$	Equity Component \$
Convertible debenture upon issuance	2,999,895	2,663,556	336,339
Transaction costs	(16,835)	(14,948)	(1,887)
Deferred tax	-	-	(88,000)
Net balance upon issuance	2,983,060	2,648,608	246,452

Balance of liability component of the convertible debenture as at December 31, 2015:

	\$
Balance, beginning of year	-
Issuance of convertible debentures	2,648,608
Accretion on convertible debentures	341,403
Cash interest	(286,222)
Balance, end of year	2,703,790

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

12. SHARE CAPITAL

- (a) **Authorized** - Unlimited common shares, with no par value
(b) **Issued** – 41,474,070 common shares

	#	\$
Balance, December 31, 2013	28,040,350	9,261,904
Private placement ⁽ⁱ⁾	1,930,424	1,930,424
Share issue costs ⁽ⁱ⁾	-	(203,463)
Warrants valuation ⁽ⁱ⁾	-	(639,135)
Private placement ⁽ⁱⁱ⁾	470,000	470,000
Share issue costs ⁽ⁱⁱ⁾	-	(31,403)
Warrants valuation ⁽ⁱⁱ⁾	-	(155,628)
Private placement ⁽ⁱⁱⁱ⁾	3,810,670	3,810,670
Share issue costs ⁽ⁱⁱⁱ⁾	-	(990,435)
Warrants valuation ⁽ⁱⁱⁱ⁾	-	(1,261,338)
Private placement ^(iv)	520,000	520,000
Share issue costs ^(iv)	-	(33,198)
Warrants valuation ^(iv)	-	(172,159)
Shares issued to D&H ^(v)	3,000,000	2,220,000
Shares issued to D&H ^(vi)	147,288	54,497
Shares issued to MacDonald	55,338	20,475
Balance, December 31, 2014	37,974,070	14,801,211
Shares issued to M2 Advisors ^(vii)	3,500,000	2,341,500
Balance, December 31, 2015	41,474,070	17,142,711

⁽ⁱ⁾ On January 31, 2014, the Company raised proceeds of \$1,930,424 by way of a non-brokered private placement of 1,930,424 units at a price of \$1.00 per unit. Each unit is comprised of one common share and one warrant. Each warrant comprising part of the unit is exercisable for a common share at a price of \$1.25 for 3 years from the date of issuance.

The finder received cash commission of 6% of the gross proceeds raised through the finder and 60,397 finder's warrants. Each finder's warrant entitles the holder to acquire one common share at a price of \$1.00 for thirty-six months from the date of issuance. The Company paid a total amount of \$282,291 for commission, filing fees, travel, legal and other share issue costs.

The President who is also the CEO and a director, along with another director, participated in the private placement for gross proceeds of \$500,000 and \$100,000, respectively.

⁽ⁱⁱ⁾ On June 10, 2014, the Company raised proceeds of \$470,000 by way of a non-brokered private placement of 470,000 units at a price of \$1.00 per unit. Each unit is comprised of one common share and one warrant. Each warrant comprising part of the unit is exercisable for a common share at a price of \$1.25 for 3 years from the date of issuance.

The finders received cash commission of 6% of the gross proceeds raised through the finders and 28,200 finder warrants. Each finder warrant entitles the holder to acquire one common share at a price of \$1.00 for thirty-six months from the date of issuance. The Company paid a total amount of \$36,749 for commission, filing fees, legal and other share issue costs.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

12. SHARE CAPITAL (continued)

- (iii) On July 28, 2014, the Company raised proceeds of \$3,810,670 by way of a non-brokered private placement of 3,810,670 units at a price of \$1.00 per unit. Each unit is comprised of one common share and one common share purchase warrant. Each warrant comprising part of the unit is exercisable for a common share at a price of \$1.25 for 3 years from the date of issuance.

The finders received cash commission of 6% of the gross proceeds raised through the finders and 228,640 finder warrants. Each finder warrant entitles the holder to acquire one common share at a price of \$1.00 for thirty-six months from the date of issuance. The Company paid a total amount of \$272,259 for commission, filing fees, legal and other share issue costs.

- (iv) On October 30, 2014, the Company raised proceeds of \$520,000 by way of a non-brokered private placement of 520,000 units at a price of \$1.00 per unit. Each unit is comprised of one common share and one common share purchase warrant. Each warrant comprising part of the unit is exercisable for a common share at a price of \$1.25 for 3 years from the date of issuance.

The finders received cash commission of 6% of the gross proceeds raised through the finders and 31,200 finder warrants. Each finder warrant entitles the holder to acquire one common share at a price of \$1.00 for thirty-six months from the date of issuance. The Company paid a total amount of \$38,349 for commission, filing fees, legal and other share issue costs.

- (v) On October 30, 2014, the Company issued 3,000,000 units to D&H valued at \$0.74 per unit pursuant to a termination agreement (see Note 8). Each unit is comprised of one common share and one-half of one common purchase warrant. Each whole warrant comprising part of the units is exercisable for one common share at a price of \$1.25 for 2 years from the date of issuance.

- (vi) On December 19, 2014, the Company settled an aggregate total debt of \$147,288 through issuance of 147,288 units and an aggregate total debt of \$55,338 through issuance of 55,338 units to D&H and MacDonald, respectively. Each unit is comprised of one common share and one-half of one common purchase warrant. Each warrant comprising part of the units is exercisable for a common share at a price of \$1.25 for 5 years from the date of issuance. The fair value of the shares issued was estimated at \$2,341,500 based on the value of the shares issued in the October 30, 2014 private placement.

- (vii) On February 4, 2015, the Company issued to a consultant, M2 Advisors, 3,500,000 common shares in the capital of the Company. The shares were issued in accordance with the terms of a service agreement between the Company and the consultant completed during the year ended December 31, 2014 and were reflected as common shares to be issued as at December 31, 2014. The shares were subject to a statutory hold period of four months from the date of issuance. The fair value of the shares issued was estimated at \$2,341,500 based on the value of the shares issued in the October 30, 2014 private placement.

In addition, the Company is obligated to issue an additional 3,400,000 warrants under the terms of the service agreement (Note 14)(viii).

JAMES BAY RESOURCES LIMITED

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

Expressed in Canadian dollars

13. SHARE-BASED PAYMENTS RESERVE

The Company has an incentive stock option plan (the "Plan") whereby the Company can grant to directors, officers, employees and consultants options to purchase shares of the Company. The Plan provides for the issuance of stock options to acquire up to 20% of the Company's issued and outstanding capital at the time of granting of options for a maximum term of five years. The Plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases. In no case (calculated at the time of grant) shall the Plan result in:

- the number of options granted in a 12-month period to any one consultant exceeding 2% of the issued shares of the Company;
- the aggregate number of options granted in a 12-month period to any one individual exceeding 5% of the outstanding shares of the Company;
- the number of options granted in any 12-month period to employees or consultants undertaking investor relations activities exceeding in aggregate 2% of the issued shares of the Company;
- the aggregate number of common shares reserved for issuance to any one individual upon the exercise of options granted under the Plan or any previously established and outstanding stock option plans or grants exceeding 5% of the issued shares of the Company in any 12-month period.

The following reconciles the share options outstanding:

	December 31, 2015		December 31, 2014	
	Number	Weighted	Number	Weighted
	of options	average	of options	average
	#	exercise price	#	exercise price
		\$		\$
Balance, beginning of year	800,000	0.66	800,000	0.66
Expired	(200,000)	0.75	-	-
Granted	5,535,000	0.25	-	-
Balance, end of year	<u>6,135,000</u>	<u>0.29</u>	<u>800,000</u>	<u>0.66</u>

The Company has the following share options outstanding at December 31, 2015:

Estimated Grant	Outstanding	Options	Exercise	
Date Fair Value	Options	Exercisable	Price	Expiry Date
\$	#	#	\$	
204,000	600,000	600,000	0.63	June 1, 2017
323,000	5,285,000	5,285,000	0.25	May 4, 2020
5,700	250,000	250,000	0.30	September 15, 2020
<u>532,700</u>	<u>6,135,000</u>	<u>6,135,000</u>		

On May 4, 2015, the Company granted 5,285,000 stock options to directors, officers, consultants and employees of the Company. The fair value of the options was estimated using the Black-Scholes option-pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk free interest rate of 1.08%; expected life of 5 years. An amount of \$323,000 was recorded relating to these stock options for the year ended December 31, 2015 and of this amount, \$133,845 was charged to CINRL.

On September 15, 2015, the Company granted 250,000 stock options to a consultant. The fair value of the options was estimated using the Black-Scholes option-pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk free interest rate of 0.84%; expected life of 5 years. An amount of \$5,700 was recorded relating to these stock options for the year ended December 31, 2015.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

14. WARRANT RESERVE

	#	\$
Balance, December 31, 2013	-	-
Warrants issued ⁽ⁱ⁾	1,930,424	639,135
Finder's warrants issued ⁽ⁱ⁾	60,397	21,839
Warrant issue costs	-	(100,668)
Warrants issued ⁽ⁱⁱ⁾	470,000	155,628
Finder's warrants issued ⁽ⁱⁱ⁾	28,200	10,197
Warrant issue costs	-	(15,545)
Warrants issued ⁽ⁱⁱⁱ⁾	3,810,670	1,261,338
Finder's warrants issued ⁽ⁱⁱⁱ⁾	228,640	82,653
Warrant issue costs	-	(490,076)
Warrants issued ^(iv)	520,000	172,159
Finder's warrants issued ^(iv)	31,200	11,281
Warrant issue costs	-	(16,430)
Warrants issued to D&H ^(v)	1,500,000	442,987
Warrants issued to D&H ^(vi)	73,644	12,317
Warrants issued to MacDonald ^(vi)	27,669	4,628
Warrants issued to MacDonald ^(vi)	50,000	23,126
Balance, December 31, 2014 and 2015	8,730,844	2,214,569

⁽ⁱ⁾ In connection with the January 31, 2014, private placement (Note 12(b)(i)), the Company issued 1,930,424 warrants which entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on January 31, 2017. The estimated fair value of the warrants of \$639,135 was estimated using the Black-Scholes option-pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.14% and an expected life of 3 years.

The finders received 60,397 finders' warrants which entitle the holder to purchase one common share of the Company at a price of \$1.00 expiring on January 31, 2017. The estimated fair value of the finder's warrants of \$21,839 was estimated using the Black-Scholes option-pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.14% and an expected life of 3 years.

⁽ⁱⁱ⁾ In connection with the June 10, 2014, private placement (Note 12(b)(ii)), the Company issued 470,000 warrants which entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on June 10, 2017. The estimated fair value of the warrants of \$155,628 was estimated using the Black-Scholes option-pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.17% and an expected life of 3 years.

The finders received 28,200 finders' warrants which entitle the holder to purchase one common share of the Company at a price of \$1.00 expiring on June 10, 2017. The estimated fair value of the finder warrants of \$10,197 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.17% and an expected life of 3 years.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

14. WARRANT RESERVE (continued)

- (iii) In connection with the July 28, 2014, private placement (Note 12(b)(iii)), the Company issued 3,810,670 warrants which entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on July 28, 2017. The estimated fair value of the warrants of \$1,261,338 was estimated using the Black-Scholes option-pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.12% and an expected life of 3 years.

The finders received 228,640 finder's warrants which entitle the holders to purchase one common share of the Company at a price of \$1.00 expiring on July 28, 2017. The estimated fair value of these finder's warrants of \$82,653 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.12% and an expected life of 3 years.

- (iv) In connection with the October 30, 2014, private placement (Note 12(b)(iv)), the Company issued 520,000 warrants which entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on October 30, 2017. The estimated fair value of the warrants of \$172,159 was estimated using the Black-Scholes option-pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.15% and an expected life of 3 years

The finders received 31,200 finders' warrants, which entitle the holder to purchase one common share of the Company at a price of \$1.00 expiring on October 30, 2017. The estimated fair value of the finder warrants of \$11,281 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.15% and an expected life of 3 years.

- (v) In connection with units issued to D&H (Note 12(b)(v)), the Company issued 1,500,000 warrants which entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on October 30, 2016. The estimated fair value of the warrants of \$442,987 was estimated using the Black-Scholes option-pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.01% and an expected life of 2 years.

- (vi) In connection with units issued to D&H and MacDonald (Note 12(b)(vi)), the Company issued 101,313 warrants which entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on December 19, 2019. The estimated fair value of the warrants of \$16,945 was estimated using the Black-Scholes option-pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 86%, a risk-free interest rate of 1.12% and an expected life of 5 years.

- (vii) On October 30, 2014, the Company issued 50,000 warrants to MacDonald (Note 9) which entitles the holder to purchase one common share of the Company at a price of \$1.25 expiring on December 19, 2019. The estimated fair value of the warrants of \$23,126 was estimated using the Black-Scholes option-pricing model with the following assumption: an expected dividend yield of 0%, expected volatility of 92%, a risk-free interest rate of 1.54% and an expected life of 5 years.

- (viii) In connection with the terms of service agreement with M2 Advisors, the Company is obligated to issue an additional 3,400,000 finders' warrants which entitle the holder to purchase one common share of the Company at a price of \$1.25 expiring on July 28, 2017. The estimated fair value of the finder warrants of \$1,125,600 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 1.14% and an expected life of 3 years. As of December 31, 2015, 3,400,000 finders' warrants have yet to be issued and the balance has been reflected as warrants to be issued as at December 31, 2014 and 2015.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

14. WARRANT RESERVE (continued)

The following reconciles the warrants outstanding:

	December 31, 2015		December 31, 2014	
	Number	Exercise price	Number	Exercise price
	of warrants #	\$	of warrants #	\$
Balance, beginning of year	8,730,844	1.24	-	-
Warrants issued	-	-	8,382,407	1.25
Finder's warrants issued	-	-	348,437	1.00
Balance, end of year	<u>8,730,844</u>	1.24	<u>8,730,844</u>	1.24

The Company has the following warrants outstanding as at December 31, 2015:

Estimated Fair Value (net of issue costs) \$	Outstanding Warrants #	Warrants Exercisable #	Exercise Price \$	Expiry Date
442,987	1,500,000	1,500,000	1.25	October 30, 2016
538,468	1,930,424	1,930,424	1.25	January 31, 2017
21,839	60,397 ^(a)	60,397	1.00	January 31, 2017
140,083	470,000	470,000	1.25	June 10, 2017
10,197	28,200 ^(b)	28,200	1.00	June 10, 2017
771,262	3,810,670	3,810,670	1.25	July 28, 2017
82,653	228,640 ^(c)	228,640	1.00	July 28, 2017
155,728	520,000	520,000	1.25	October 30, 2017
11,281	31,200 ^(d)	31,200	1.00	October 30, 2017
23,126	50,000	50,000	1.25	October 30, 2019
16,945	101,313	101,313	1.25	December 19, 2019
<u>2,214,569</u>	<u>8,730,844</u>	<u>8,730,844</u>		

(a) These are finder's warrants issued in connection with the January 31, 2014, private placement.

(b) These are finder's warrants issued in connection with the June 10, 2014, private placement.

(c) These are finder's warrants issued in connection with the July 28, 2014 private placement.

(d) These are finder's warrants issued in connection with the October 30, 2014 private placement.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

15. INVESTMENT IN CRESTAR INTERGRATED NATURAL RESOURCE (“CINRL”)

The Company, through its wholly owned subsidiary JBENL has a 45% ownership interest in CINRL with the remaining 55% portion held by an indigenous Nigerian corporation Crestar Hydrocarbon Exploration and Production Company Limited (“CHEPCL”).

From the acquisition of the Company’s interest in CINRL in September 2013 to June 2014, the Company had consolidated the accounts of CINRL even though it owned less than 50% of the shares. During this period, it was determined that the Company had control over CINRL due the following factors: The Company had entered into a Financial and Technical Services Agreement with CINRL whereby the Company was appointed the Financial and Technical Partner with respect to acquiring oil and gas projects in Nigeria. This agreement provided that the Company shall arrange to provide the funding to CINRL and shall meet all required financial obligations. The Company was responsible for providing technical assistance, appointing personnel and carrying out the evaluation, development and production from the projects. JBENL’s President and Chief Executive Officer is also the President and Chief Executive Officer of CINRL, and member of the Board of Directors of James Bay and a shareholder of CHEPCL.

In consideration of the Company’s obligations to provide the funding to CINRL, the revenue proceeds from the contract area or any asset of CINRL shall be allocated in the following manner:

- a. The parties shall first deduct any amounts owing to third parties in accordance with their participatory interest under the project document;
- b. 80% of the remaining revenue proceeds (after deductions under (a) above) shall be allocated to the Company;
- c. The remaining 20% of revenue proceeds (after deductions under (a) and (b) above) shall be shared between CINRL and the Company in accordance with their respective ownership interest.

The above agreement between CINRL and JBENL was amended on June 17, 2014 to reflect a change of party from CINRL to CHEPCL.

Concurrent with the signing of the Agreement for Assignment of OML 25 on July 3, 2014, an agreement came into force with a prospective future investor of CINRL to provide CINRL with a loan for the full acquisition cost of the asset. The agreement further provided that the future investor would provide all technical services required under the operation of OML 25, such agreement was subject only to the formal closing of the acquisition. As consideration, the prospective investor was expected to assume 55.56% effective interest in OML 25 and net revenue proceeds from the asset were expected to be adjusted accordingly. Given the agreement in place, it was determined that the Company lost control of CINRL on July 3, 2014. Related to this loss of control, the Company recorded a gain on deconsolidation of \$28,823,548 in 2014.

Certain recent events have led to the renewal of negotiations among CINRL and the Shell JV who along with the NNPC currently control OML 25. CINRL and its partners will work together moving forward to continue these negotiations in order to secure the 45% interest in OML 25. Pursuant to an agreement reached between CINRL and its partner (not the Shell JV), the sum of US\$408 million which was previously advanced by CINRL’s partner and held in an escrow account in respect of the purchase price payable for OML 25. Given the material delays with the acquisition and the NNPC’s blockage of the closing of the initial purchase agreement for OML 25, it was determined that the funds should be released from escrow. Notwithstanding this release from escrow, the initial US\$45,320,000 deposit remains with the Shell JV while the Company and its partner work to complete the acquisition of OML 25.

In addition and in connection with this renewed process, CINRL’s partner has agreed to fund a portion of consortium costs previously incurred by CINRL in an amount equal to US\$11 million, payable as to US\$3.5 million on July 1, 2015 and US\$7.5 million on a deferred basis. The sum of US\$29 million was placed into a new escrow account by CINRL’s partner pending agreement of final terms of the acquisition transaction.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

15. INVESTMENT IN CRESTAR INTERGRATED NATURAL RESOURCE ("CINRL") (continued)

In the event that terms can be agreed for the acquisition of OML 25 and CINRL's partner agrees to proceed with the investment, the funds in the escrow will be released to CINRL's partner. Should CINRL's partner, at its discretion on or before June 30, 2016, decide not to proceed with the potential investment, an additional payment of US\$20 million will be paid to CINRL with the remaining funds in the new escrow account being released to its partner under certain conditions.

In July 2015, CINRL received a repayment from its partner in the amount of \$4,459,000 (US\$3,500,000) and this amount was paid by CINRL to the Company as a repayment of amounts previously advanced to CINRL.

During the year ended December 31, 2015, the Company recorded income from equity investment of \$1,392,004 (December 31, 2014 – loss attributable to non-controlling interest of \$2,208,438) and impairment on equity investment in CINRL of \$1,279,589 (December 31, 2014 - \$2,260,880).

16. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of its properties. The capital structure of the Company consists of equity attributable to common shareholders comprised of common shares, warrant reserve, share-based payments reserve, and deficit. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest, or is pursuing an interest in, are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed.

The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2015. The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the CSE which requires adequate working capital of \$50,000. As of December 31, 2015, the Company is in compliance with the policies of the CSE.

17. FINANCIAL INSTRUMENTS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no significant changes in the risks, objectives, policies and procedures from the previous period.

Credit risk

The Company's credit risk is primarily attributable to cash and amounts receivable. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to cash and amounts receivable is remote.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

17. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have liquidity to meet liabilities when due. At December 31, 2015, the Company had cash of \$1,321,139 (December 31, 2014 - \$132,915) to settle current liabilities of \$566,493 (December 31, 2014 - \$883,125). The Company has working capital of \$942,395 (December 31, 2014 - working capital deficiency of \$610,170). The Company's financial liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms. The convertible debentures are due in 2018 (Note 11).

Market risk

(a) Interest rate risk

The Company has cash balances and interest-bearing debt due to convertible debenture holders as described in Note 11. The Company's current policy is to invest excess cash in investment-grade short-term guaranteed investment certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Price risk

The ability of the Company to pursue its resource interests and the future profitability of the Company is directly related to the market price of oil and gas.

(c) Foreign currency risk

The Company is subject to foreign exchange risk as the Company has certain assets and liabilities, and makes certain expenditures, in US dollars and Nigerian Naira. The Company is therefore subject to gains and losses due to fluctuations in the US dollar and the Nigerian Naira relative to the Canadian dollar. The Company does not hedge its foreign exchange risk.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve-month period.

As at December 31, 2015, the Company has net monetary assets denominated in US dollars of approximately US\$579,000 (December 31, 2014 - US\$326,887). A 10% change in the value of the Canadian dollar relative to the US dollar would result in a corresponding change in net income of approximately US\$57,900 (December 31, 2014 - net loss \$32,689) based on the balance of these amounts held in US dollars at December 31, 2015.

Fair value

The carrying value of cash, restricted cash, amounts receivable, accounts payable and accrued liabilities and due to shareholder approximate their fair value due to the relatively short periods to maturity of the financial instruments. The carrying value of the convertible debentures approximates its fair value as a result of recording the convertible debentures at its estimated fair value when it was received during 2015.

Fair value hierarchy and liquidity risk disclosure

Fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). As at December 31, 2015 and 2014, the Company had no financial instruments to classify in the fair value hierarchy.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

18. RELATED PARTY DISCLOSURES

These consolidated financial statements include balances and transactions with directors and officers of the Company and/or corporations related to them. During the years ended December 31, 2015 and 2014 the Company entered into the following transactions involving related parties:

The Company rents office spaces from corporations with a common officer and a common director. During the year ended December 31, 2015, approximately \$38,527 (December 31, 2013 - \$40,535) was charged by these corporations. The amount is included in office and general expense on the statement of loss and comprehensive loss. As of December 31, 2015, included in accounts payable and accrued liabilities is \$Nil (December 31, 2014 - \$707) owing to these corporations.

The Company incurred legal fees of approximately \$128,354 (December 31, 2014 - \$269,059) with a law firm of which a partner, is a director of the Company. This amount is included in professional fees on the statement of loss and comprehensive loss. As of December 31, 2015, included in accounts payable and accrued liabilities is \$94,379 (December 31, 2014 - \$93,190) owing to this law firm.

In accordance with IAS 24, key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of directors and other members of key management personnel for the year ended December 31, 2015 and year ended December 31, 2014 were as follows:

	December 31, 2015	December 31, 2014
	\$	\$
Management salaries and benefits and director fees	568,067	893,051
Share-based payments	70,895	14,167

During the year ended December 31, 2015, the Company paid \$817,920 (2014 - \$637,263) to two executive officers, of which, \$401,853 (USD \$329,500) (2014 - \$441,053 (USD \$406,884)) has been charged as management fees to CINRL.

Included in accounts payable and accrued liabilities as at December 31, 2015 is approximately \$2,326 (December 31, 2014 - \$2,496) of management travel expenses reimbursement and \$20,000 (December 31, 2014 - \$40,000) of director fees owing.

All of the above amounts payable to related parties are unsecured, non-interest bearing, with no fixed terms of repayment.

See also Notes 10, 11, 12, and 19.

19. COMMITMENTS AND CONTINGENCIES

The Company is party to certain management contracts, which contain clauses requiring additional payments of up to \$1,780,000 be made upon the occurrence of certain events such as a change of control and additional payments of up to \$874,000 be made upon termination of contracts. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements. As of December 31, 2015, under these management contracts, management has committed to \$745,000 of salaries and benefits due within one year.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

19. COMMITMENTS AND CONTINGENCIES (continued)

The Company is subject to a lease commitment for premises in Nigeria and Canada expiring in September 2016 and January 2019 respectively.

	Nigeria ⁽ⁱ⁾ \$	Canada \$	Total \$
2016	168,000	79,000	247,000
2017	126,000	138,000	264,000
2018	-	192,000	192,000
2019	-	17,000	17,000
Total	294,000	426,000	720,000

⁽ⁱ⁾Lease renewal at the Company's option

The lease cost for the period January 2016 to September 2016 was paid in advance and \$124,560 (US\$90,000) is included in current prepaid expenses as at December 31, 2015.

During 2013, the Company entered into an agreement with a corporation which will work with the Company to facilitate the acquisition of oil and gas projects. Pursuant to the agreement, the Company will pay a fee of 2% of the transaction cost on the closing of an acquisition. The Company may also be required to pay an additional fee of 2% of the transaction cost in equal quarterly payments over 10 years. The agreement has expired and as a triggering event has not taken place, no contingent payments have been reflected in these consolidated financial statements.

The Company's exploration and evaluation activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

The Company is party to legal proceedings in the ordinary course of its operations related to legally binding agreements with a third party. As at December 31, 2015, one such proceeding was ongoing. The Company believes this claim to be without merit. Management does not expect the outcome of this proceeding to have a materially adverse effect on the results of the Company's financial position or results of operations and therefore this amount has not been reflected in these financial statements. Should any losses result from the resolution of this dispute, that amount will be charged to operations in the year that it is determined.

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

20. INCOME TAXES

a) Provision for Income Taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2014 - 26.5%) were as follows:

	2015 \$	2014 \$
Loss before income taxes	(6,030,680)	(7,657,406)
Expected income tax recovery based on statutory rate	(1,598,000)	(2,029,000)
Adjustment to expected income tax benefit:		
Expenses not deductible for tax purposes	5,000	2,000
Other	-	(2,000)
Change in foreign exchange rates	731,000	486,000
Difference in tax rates	(72,000)	(40,000)
Benefit of tax assets not recognized	846,000	1,583,000
Deferred income tax (recovery)	(88,000)	-
Deferred income tax recognized in equity	88,000	-
Total taxation	-	-

b) Deferred Income Tax

Recognized deferred tax assets (liabilities) were as follows:

	2015 \$	2014 \$
Resources property costs - Nigeria	-	(404,000)
Non-capital loss carry-forwards - Nigeria	-	404,000
Convertible debentures	(78,000)	-
Non-capital loss carry-forwards - Canada	78,000	-
Total	-	-

Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	2015 \$	2014 \$
Non-capital loss carry-forwards - Canada	4,862,000	6,358,000
Non-capital loss carry-forwards - Nigeria	12,293,000	5,700,000
Resource property costs - Canada	3,452,000	3,446,000
Resource property costs - Nigeria	-	-
Investment in CINRL - Canada	6,219,000	3,387,000
Investment in CINRL - Nigeria	2,747,000	785,000
Equipment - Nigeria	15,000	13,000
Total	29,588,000	19,689,000

JAMES BAY RESOURCES LIMITED
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
Expressed in Canadian dollars

20. INCOME TAXES (continued)

c) Tax Loss Carry-Forwards (continued)

As at December 31, 2015, the Company had approximately \$3,452,000 (2014 – \$3,446,000) of Canadian exploration and development expenditures and \$12,293,000 (2014 – \$5,700,000) of Nigerian exploration and operating expenditures. These losses may be utilized to reduce taxable income of futures years under certain circumstances.

As at December 31, 2015, the Company had approximately \$5,155,000 (2014 - \$6,358,000) of non-capital losses in Canada, which can be used to reduce taxable income in future years. The losses expire as follows:

<u>Year of expiry</u>	<u>Amount</u>
2027	7,000
2028	107,000
2029	102,000
2030	812,000
2031	751,000
2032	900,000
2033	140,000
2034	1,087,000
2035	1,249,000
	<u>5,155,000</u>

21. SUPPLEMENTAL INFORMATION – STATEMENTS OF CASH FLOWS

	2015	2014
	\$	\$
Unit issuance for interest in exploration and evaluation asset (Notes 12 (b)(v) and 14(v))	-	2,662,987
Units issued for settlement of debt (Notes 12 (b)(vi) and 14 (vi))	-	91,917
Interest paid	-	18,919
Warrants issued for services (Note 14 (vii))	-	23,126
Amortization recorded to exploration and evaluation asset	-	7,507
Share-based payments recorded to exploration and evaluation assets	-	1,417
Shareholder loan repaid through the issuance of convertible debentures	1,349,925	-

CORPORATE INFORMATION

Directors

Stephen Shefsky*
President, CEO, Secretary
Toronto, On., Canada

Mark Brennan**'***
Toronto, On., Canada

Wayne Egan**
Toronto, On., Canada

Jon Pereira*'***
Toronto, On, Canada

Jean Gauthier*' **
Ottawa, On., Canada

Adeniyi Olaniyan ***
Calgary, Ab., Canada

Officers

Stephen Shefsky
President, CEO, Secretary

Eric Szustak CPA CA
Chief Financial Officer

***Member Audit Committee**

****Member Compensation Committee**

*****Reserves Committee**

Offices

James Bay Resources Limited
79 Wellington St W., Suite 2100
TD South Tower
Toronto, Ontario, M5K 1H1
Telephone: (416) 366-4200
Website: www.jamesbayresources.com

Transfer Agent

TMX Equity Transfer Services Inc.
200 University Ave., Suite 300
Toronto, Ontario, M5H 4H1
Tel (416) 361-0930
Website www.tmxequitytransferservices.com

Auditors

McGovern, Hurley, Cunningham LLP
Toronto, Ontario
Website: www.mhc-ca.com

Canadian Legal Counsel

WeirFoulds LLP
Toronto, Ontario
Website: www.weirfoulds.com

Shares Traded

Canadian Securities Exchange
Symbol : JBR

Annual Meeting

June 16th, 2016 at 10:00 A.M.
WeirFoulds LLP
Suite 4100, 66 Wellington St W.
Toronto, Ontario. M5K 1B7